Economics A Level | Edexcel B | 9EB0

Course Companion

For A Level Edexcel B Economics:

Theme 3: The Global Economy

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Contents

Teacher's Introduction

This resource has been written to support the learning of Theme 3: The Global Economy, which forms part of the Edexcel Level 3 Advanced GCE in Economics B. It gives an in-depth view of the new qualification, presenting what specification points students need to know, plus extras along the way for extended learning.

At the beginning of this resource you will find a list of contents showing every specification point that is covered. There are also questions at the end of each topic, with answers at the end of the resource, to help students apply their knowledge to real-life economic contexts. Key terms are revised as a glossary at the end of the resource.

Students are given information about and opportunities to practise quantitative skills in this resource, including the listed skills from Appendix 3 of the A Level specification.

While extremely valuable to a student's revision, this resource should be treated as a companion to the many other textbooks and activity guides available. As with any subject, it is good to read as widely as possible!

The notes included in this resource can be given to students before a lesson as preparation for a topic or afterwards in order to help consolidate their knowledge, or can be used by teachers as a supplement to in-class exercises and activities.

It is hoped that this resource, as well as offering support for teaching the essential elements of the Edexcel examination, will help students build on their research and dissemination skills. The world of economics is a constantly changing one, full of fascinating stories. This resource attempts to utilise some of these stories as a basis for teaching in the most interesting way possible, meanwhile encouraging further study by the next generation of economic analysts!

*A webpage containing the links listed in this resource is conveniently provided on ZigZag Education's website at **zzed.uk/5869**. This page may not include links to URLs which are used as source references.*

You may find this helpful for accessing the websites rather than typing in each URL.

Theme 3 – The Global Ec

Globalisation (3.1)

Due to advances in technology and developments in flight and train travel and speeds, the world has in effect 'shrunk' and countries are now able to trade across borders and great distances with relative ease. A company is no longer restricted its own local, national market and can trade across land and language barriers. Pr maximisation is most companies' ultimate objective, and developing international markets and growing exports is another way to achieve this. Globalisation, howev is not just about exports or trading with other countries – it is far more significant than that – it incorporates the movement of people, the sharing of information, a cultural exchange. Global organisations wield international influence. McDonald's opening their first outlet in China was not just economic growth, it was American cultural influence, Westernisation, in a predominantly communist country. Globalisation is a concern for some countries which wish to preserve and maintai identities. However, economic progress necessitates trade across borders and the commodities and resources makes partners out of diverse cultures.

Globalisation is the process of trade, migration, information sharing and cultural exchange between countries that contributes to an increasingly interconnected and interdependent world.

Political changes in 2016 in Europe, and su 2017, have given rise to a media that has a political commentary and a fierce resistanc to immigration. However, the political clima few countries are self-sufficient enough to an 'autarky.'

Indeed, a business in the UK does *not* operate in isolation from the rest of the wo product, but its inputs may have been imported from abroad. It is, therefore, influ rates and global market forces. International trade might be necessary if a countr needs for production. Likewise, socio-economic or competitive factors might mak for a business, and so they can use their excess capacity to export abroad instead unlikely if a country limits international trade.

In short, most countries need to trade internationally for some reason or another. exporting products will continue throughout the foreseeable future. Marketing, h account certain political influences in an increasingly globalised world. Many saw rejecting globalisation and seeking to regain national sovereignty – but this is alm interconnected world of finance and capital goods. It is telling that financial centr Manchester had the highest percentage of voters wishing to remain in the Europe

Learn More

Further reading on political change and globalisation:

- **zzed.co.uk/5869-brexit-globalisation**
- **zzed.co.uk/5869-trump-globalisation**

Global Markets vs Local Markets

Globalisation rules in financial markets as money moves effortlessly and expedien
and is itself a traded commodity. However, although most countries speak the lan
yen, the environment is different for companies trading in consumer products or c
seeks to expand into an international market it needs to consider the differences,
cultures and peoples in those societies, as well as economic factors that influence
consumers.

Most companies trade in a series of national markets rather than one *truly* global
are raw materials such as oil, gas, coal, gold, and other natural commodities. How
products in secondary markets – e.g. steel and manufactured goods – differences
specifications, processes and requirements become apparent. Globalised products
commonalities – e.g. a car is a car, whether in India, Britain or America – but there
consumer behaviour and preferences in those markets, as well as in their ability to
the car you sell in America might be beyond the financial reach of consumers in In
favours a large car and worries less about fuel prices than a British city-dweller wh
even an electric or hybrid car.

Local markets are clearly attractive for any company since they have first-hand kn
customs and the cultures of that market. Logistics are confined to a *known* area a
However, a local market may also be highly competitive and there may even be sa
products or services. The attraction, therefore, of global business is wider market p
intense competition – although the competition, while less intense, is likely to be s
stage. However, companies entering global markets need to reassess their market
successfully penetrate those markets. Take a look at the following YouTube video
https://www.youtube.com/watch?v=2yVMnuhYp4c

Barriers to Global Markets

Businesses sometimes choose to 'stay local' because the barriers to entry to forei
barriers could be formal (e.g. tariffs, regulations) or informal (e.g. differences in pr
However, other businesses see global markets as a necessary way to hedge their b
downturns – although 'contagion' is become an increasingly important issue in int
Often, the most effective means for a company to expand into international mark
or merger.

Questions: Globalisation (3.1a)

1. a) What are 5 advantages and disadvantages of globalisation

b) Identify any potential bias in this extract – support your answer.

> Free trade is supposed to reduce barriers such as tariffs, value added
> other barriers between nations. This is not true. There are still many b
> The Washington Post story says 'the problem is that the big G20 cou
> than 1,200 restrictive export and import measures since 200Competi
> is supposed to drive prices down. In many cases this is not working b
> manipulate their currency to get a price advantage. It also provides p
> infusions of foreign capital and technology, with the chance to devel
> by spreading prosperity, creates the conditions in which democracy a
> rights may flourish...
>
> According to supporters, globalization and democracy should go ha
> be pure business with no colonialist designs. There is now a worldwi
> markets and consumers who have access to products of different
> There is a world power that is being created instead of compartment
> Politics is merging and decisions that are being taken are actually be
> over the world...There is more influx of information between two cou
> have anything in common between them...(and)...There is cultural int
> country is learning more about other cultures...
>
> Since we share financial interests, corporations and governments are
> ecological problems for each other... Socially we have become more
> towards each other and people who live in the other part of the worl
> aliens...Most people see speedy travel, mass communications and qu
> information through the Internet as benefits of globalization...
>
> Labor can move from country to country to market their skills. True, b
> problems with the existing labor and downward pressure on wages.
> with developing nations will help them progress. True for small coun
> technologies and IP have become a big problem with our larger com
> Transnational companies investing in installing plants in other count
> employment for the people in those countries often getting them ou
>
> Globalization has given countries the ability to agree to free trade ag
> South Korea Korus, and The TPP. True but these agreements have co
> and always increase our trade deficit

Source: ***http://www.forbes.com/sites/mikecollins/2015/05/***
glol

The original Washington Post story referred to: ***zzed***

2. Watch the YouTube video on entering global markets.

https://www.youtube.com/watch?v=2yVMnuhYp4c

Give examples of the three basic levels of adaptation a company can choos
international market – how much or how little should they adapt their strat
examples that match these levels of adaptation.

Growing Economies

Aim: to make sure you are comfortable with:

- understanding the difference between real and nominal values
- why real and nominal values are used
- calculating real values from nominal values
- understanding why index numbers are used
- calculating and interpreting indexes

Rising Incomes

Rising incomes will mean people have a greater ability to afford the goods they n
that people's living standards will increase. What is interesting to note is that an e
influential to those with less than it would be to those with more. For those in ab
able to afford their basic needs. However, there is no guarantee incomes will rise e
talk about inequality later, but for now let's make sure we understand how it's imp
real, and not nominal, terms.

Nominal and Real Values

Economic growth is measured using the change in an economy's Gross Domestic
market value of all the goods and services produced (output) in one economy in o
the value of all the goods and services produced, not just the volume of goods an
total price of all the goods and services is calculated to find the sum monetary va
shows the size of an economy (the amount of goods it produces), the rate at whic
(or decline) of an economy and so economic growth is the value of the percentag

Nominal values are the current values of a measure at the time of recording them. S
value of an economy's output using the prices of the goods and services at the time
prices change over time. The price of something is found by the market forces of su
equilibrium will change over time; for example, beef or oil. Beef prices fell in 2013 d
which caused a fall in demand, and a consequent fall in beef prices. Oil prices have g
time mostly because the supply of oil is falling. Price is the unit of measurement of G
then the unit of measurement keeps changing. This means when comparing the am
from one year to the next, then growth will be exaggerated by the increasing trend

***For example**: an economy producing 50 socks at £1 each will have a nominal GDP
£1.50 but the economy is still only producing 50 socks then the economy's nominal
appears to have grown by 50%. However, in reality the economy has not grown at a*

Instead we would rather look at the 'real' change when comparing GDP over time
the 'real' value of the goods without the effect of rising prices (inflation). To do th
of goods and services produced in an economy in one year and give them a value th
This is done by giving the goods and services the monetary value that they would
in the same [illegible] The year that is picked is called the 'base year' and it is the year
are based o

Real GDP growth is one of the key economic variables that politicians will use to d
economic policies, and which may even make front-page news when growth plum
the direction of the economy over the last period, giving everyone an indication o
right now!

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* GDP can be measured using various time frames, such as every month, or even every day;
GDP values use one-year time periods.

Index Numbers

Index numbers are used to make quick and easy comparisons of values over time numbers from a base year that easily show percentage increase/decrease. A base chosen to relate measurements from all other years. They can be picked for certai need to be any rhyme or reason to it, often it is just the first value in a data set. It

If an index is 110, then this means that year has increased by 10% from the base y means it has decreased by 10% from the base year.

The maths is shown below:

Year	[illegible]	
Year 1 (Base year)	£20 million	
Year 2	£18 million	
Year 3	£22 million	
Year 4	£26 million	

1) Then the index value is found by Index for that year = $\left(\frac{\text{Price Value of Year}}{\text{Price Value of Base Ye}}\right.$
So Year 2 would be 90 = $\left(\frac{18\text{ million}}{20\text{ million}}\right) \times 100$

2) The base year is always 100 $\left[100 = \left(\frac{£20\text{ million}}{£20\text{ million}}\right) \times 100\right]$.

3) To find the GDP change between years, you first find the difference be by the base number. GDP Change = $\left[\frac{(\text{Index}_B - \text{Index}_A)}{\text{Index}_{Base}}\right] \times 100$. So the inflati 20% = $\left[\frac{(130-110)}{100}\right] \times 100$.

Because the base year is always 100, finding inflation from the base ye
GDP Change=Difference between two year

BRIC and Emerging Markets

The acronym BRIC was termed to refer to Brazil, Russia, India and China, who at th political potential to grow and 'emerge' into large and influential economies. Chin countries when it came to economic performance; however, in recent years, China started to slow.

The BRIC model has often been criticised for excluding other emerging markets. S resources and external funding from China, it has been argued, has an endowmen acceleration. Mexico and Indonesia are two other growing economies which, it ha BRIC countries. Therefore BRIC is sometimes referred to as BRICS or BRIIC and eve

Another group that is growing in recognition is MINT: Mexico, Indonesia, Nigeria inflow of FDI to boost its economy and invests heavily in infrastructure. Indonesia' in the world and it is one of the largest economies in South East Asia. Nigeria is A goods to the West Africa region, and is growing into the financial, communicatior

Turkey has seen high growth rates, sometimes of up to 10%, and has a high numb circulate their funds around the economy.

See the table overleaf for GDP stats on some of these emerging economies.

Comparison of Growth Rates

Countries	GDP				
	(current US$)				
	2010	2011	[illegible]	2013	20
Bhutan	1,585,396,256	1,840,841,618	[illegible]	1,883,654,335	2,2
Brazil	2,143,067,871,760	[illegible]	[illegible]	2,245,673,032,354	10,9
China	5,930,502,270,317	[illegible]	8,229,490,030,098	9,240,270,452,050	4,4
Germany	[illegible]	3,628,110,015,053	3,425,956,470,874	3,634,822,579,319	40,4
Guatemala	[illegible]	47,654,789,735	50,388,454,861	53,796,711,129	2,8
Guinea	[illegible]	47,654,789,735	50,388,454,861	53,796,711,129	4
Iceland	12,564,705,489	14,042,801,904	13,586,123,061	14,619,848,414	39,5
India	1,708,458,876,830	1,880,100,141,185	1,858,744,737,180	1,876,797,199,133	1,4
Indonesia	709,190,823,320	845,931,645,399	876,709,347,689	868,345,645,449	2,9
Italy	2,055,355,252,805	2,196,336,800,620	2,013,265,404,946	2,071,306,890,125	34,6
Japan	5,495,387,182,996	590,563,087,455	5,937,766,585,288	4,901,529,519,266	43,1
Kenya	32,440,133,261	34,313,315,840	40,264,403,585	4,410,114,724	7
Mexico	1,051,627,949,327	1,170,085,556,896	1,186,460,890,130	1,260,914,660,977	8,9
New Zealand	143,466,535,135	163,841,041,662	171,461,480,706	185,787,428,717	32,8
Peru	148,509,857,547	170,563,949,736	192,636,058,714	[illegible]	5,0
Romania	164,792,252,746	182,610,666,616	[illegible]	[illegible]	8,1
Russian Fed.	1,524,916,112,079	1,904,793,021,649	[illegible]	2,096,777,030,571	10,7
Sudan	65,632,237,471	[illegible]	[illegible]	66,547,789,474	1,4
Sweden	463,062,061,649	[illegible]	523,941,063,360	558,948,700,780	49,3
Tunisia	[illegible]	[illegible]	45,238,491,581	47,128,700,683	4,1
UK	[illegible]	2,462,484,285,580	2,461,768,284,868	2,521,380,958,035	36,5
USA	[illegible]	15,533,800,000,000	16,244,600,000,000	16,768,100,000,000	48,3
Rep. Yemen	31,743,751,169	29,207,296,703	31,992,801,303	35,954,502,304	1,3
Zambia	16,190,196,832	19,201,691,493	20,596,424,325	22,383,715,315	1,2

Trade and Growth

For this section, it might be helpful to go back and read your notes on globalisati

Global trade liberalisation is the removing of obstacles that prevent businesses fro
These obstacles are called 'trade barriers' and are things such as tariffs and quotas
(WTO) aims to liberalise trade and create an international market with free trade.

As well as the actions of the WTO, trade has been liberalising in recent years due t
the political-social opening of recently closed economies.

Specialisation

Adam Smith was an eighteenth-century economist who came up with the idea of specialisation. This is the idea that workers should concentrate on only one aspect, or in the context of an economy, there should be concentration on producing one good. He suggested countries should only produce goods they are good at producing and trade with other countries to obtain all the other goods. By specialising, a country can gain a competitive advantage.

***For example**, France should specialise in producing wine and Belgium should speci
order to obtain both goods, France and Belgium should trade their excess wines and*

Advantages of Specialisation and Trade	Disadvantages
• **Lower prices** By producing the goods for which it has a competitive advantage, a country can produce the goods cheaper than another country could. Therefore, all goods will have lower prices if each good was produced by the country that had the advantage. • **More consumer choice** By trading, consumers have access to more goods from other countries. • **Larger markets** Firms can benefit from specialisation and global trade because their audience is expanded to a bigger (global) market. • **Economies of scale** Because firms have a greater audience, there is greater demand for their goods. This means they have the opportunity to expand and gain from economies of scale. • **Increased living standards** If countries follow the suggestions of David Ricardo and Adam Smith, they can find they have an increased living standards. By producing the goods in which they have a comparative or absolute advantage and trade for the rest, then they will ensure consumers benefit from lower prices and increased consumer choice from international goods. The economy will see an increase in growth rates and production increases.	• **Trade deficit** If a country is un up with a trade d its goods. • **Contagion (incr shock)** As has been see crash, economic economies. This economies; as o countries that w find they are also economic shock economies. • **Global monopo** International tra monopolies with market manipula • **The problems o** Emerging econo are generally sus global monopso countries that ha finance, capital a

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is when a foreign company starts operating in ano
associated with Western firms setting up in a developing country (perhaps to ben
because of its strategic location) but it also applies to developed countries. For ex
multi-billion pound nuclear power deal with the Chinese firm CGN: the single larg
the UK.

FDI can be beneficial for receiving economies, particularly in terms of jobs. It prov
opportunities that may not have been possible otherwise, since foreign firms prov
can stimulate the economy via the multiplier effect: the newly employed workers s
the economy, which boosts the incomes of others and increases tax revenues for t
economic growth. FDI can also benefit the economy by introducing new and bett
have been available before. If the investing company [illegible] local workers, the skills
increase in 'human capital').

However, there are concerns that in some cases FDI can lead to exploitation of les
particularly in terms [illegible] working conditions, low wages and environmental da
the country [illegible] operate in, but some might pursue higher profits at the expense

Trading Blocs

The benefits of trading blocs are that they increase trade among member countries and the reduction in trade barriers reduces the cost for firms doing business across national borders. This means consumers can benefit from cheaper produce and greater choice of products, while firms can benefit from higher profit margins. Businesses can also benefit from economies of scale as they can expand and grow into a bigger market and audience. For firms outside of the trading bloc, they can find they are met with price-inflating barriers that prevent them from trading with firms within the bloc. They may find trade with previous partners has been diverted away from them and instead towards firms within the bloc.

Since the creation of the EU, there has been a great deal of trade creation among EU member countries due to the reduction of trade barriers between them (this is known as the European Single Market). However, trade has been diverted away from non-member countries (trade diversion) since the interaction between member countries is made easier due to the EU trade bloc. Commonwealth countries and the UK have found their trade relationships have fallen since. The EU is one of the first monetary and economic unions with the unifying of the countries' currencies.

The European Single Market generally benefits businesses that operate within the market. Since the creation of the [illegible] firms no longer have to worry about changes in the exchange rate affecting their transactions. They also have a much larger [illegible] for their products, although they do have to comply with [illegible] standards for the products in order to trade within the single market. Some businesses might feel that these regulations are overbearing, although usually they are designed to protect consumers and the en

As well as the EU, there are other trading blocs that are growing and expanding ir
ASEAN and NAFTA.

The Association of Southeast Asian Nations (ASEAN) started in 1967 and included
Philippines, Singapore and Thailand. Brunei, Cambodia, Laos, Burma and Vietnam
1997. Originally the association was started to prevent the spread of communism

development. Since then, the ASEAN Declaration has set out to accelerate social p development, and promote peace, stability, collaboration and mutual assistance c It also aims at improving the living standards of the people in agriculture and indu

The North American Free Trade Agreement (NAFTA) is an agreement between the U The agreement's objectives are to eliminate all tariff and non-tariff trade barriers an between the member countries. Since the formation of the agreement, trade betwe dramatically. Mexico has equally prospered from the agreement with boosts in its in value-added production. Mexico has also benefited from access to American meat p the American meat industry.

The buying of goods and services from abroad and the selling of goods and service trade) can affect a domestic economy. This means the consumption behaviour of fo domestic economy, just as the consumption behaviour of domestic consumers may This highlights a mutual 'cause and effect' between countries which is referred to as 'interdependence' of economies. This means that countries trading in the global ma on, susceptible to and supported by each other. For example, a recession in Spain m economy in Italy since Italy exports good and services to Spain. When Spanish cons demand, Italian exporters cannot sell their products, potentially leading to an econo

Impact of Trading Blocs on Firms

Businesses find both advantages and disadvantages when they locate inside a tra implications for being outside of one too.

Access to a larger market through locating inside a trading bloc such as the NAFT opportunities for firms to specialise and benefit from economies of scale. More in can mean even greater benefits, including the free movement of labour (leading t recruitment) and simplified regulations across a range of countries. The increased (see below) – can give firms an incentive to innovate and become more efficient, l more longevity.

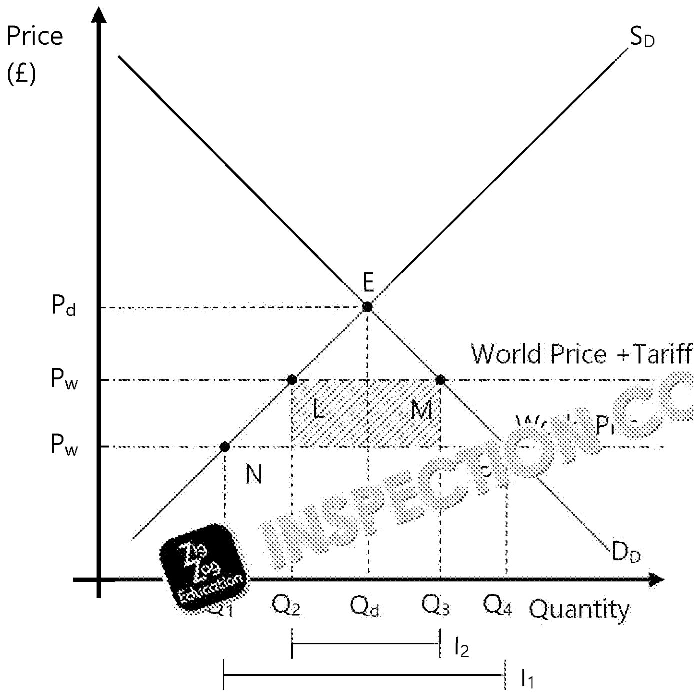
However, as has been seen in the news recently with the UK's vote to leave the EU against trading blocs, and these include some negative aspects for specific firms. same across the EU, these regulatory standards (pejoratively known as 'red tape') firms might otherwise face in their home country. A larger market might mean gre specialisation and efficiency overall, but for individual firms it could mean exposu hope to beat, such as competitors who have access to cheaper labour or governm have a deep impact on a particular industry, it may be more difficult or expensive for changes – lobbying to the UK parliament may be much easier and simpler (e.g lobbying Brussels (where MEPs have less direct power).

Trade Policy and Trade Negotiations

If free trade is so good for consumer choice, inflation and economic growth, why w restrict free trade?

- **Infant and Sunset Industry Argument**
  A sunset industry is an old and declining industry. Income flows tend to beco these industries due to their decline in profits and lower demand for their go important to economies and need to be supported. Infant industries are the inexperienced and need supporting until they have gained the finance, dema the market. Countries may wish to put trade barriers in place in order to prot competition and facilitate them to remain in the market.
- **Retaliation**
  If a country imposes trade barriers on another country's goods, the country m restriction.
- **Political Pressure**
  Governments may face pressure from the public if industries begin to decline compet[illegible]n response the government may impose protectionist measure
- **Protect Employment**
  The general idea is that trade barriers will increase the price of foreign goods. Foreign markets may threaten domestic ones because their goods are cheaper or of better quality. In economics we would say 'their goods are more competitive'. Demand will shift from domestically produced goods to imports. This means the domestic industry starts to decline and jobs will be lost. A trade barrier is believed to shift domestic demand from imported goods to domestic goods and thus cause the industry to expand and create jobs. This in return will increase employment. This can be done in a particular industry, by applying trade restrictions to certain goods, or this can be done to protect the employment levels in the whole ec restriction.
- **Retain Self-sufficiency**
  Some countries may be uncomfortable with global trade because it means th to provide certain goods and services. Instead, countries may enforce trade r economy to remain producing certain goods so they still have a supply in cas trade patterns.
- **Balance the Balance of Payments**
  The idea here is that a trade barrier will increase the price of imports and, the imports. As imports fall it is hoped a trade balance deficit will decrease and m
- **Prevent Dumping**
  Dumping occurs when a foreign country sells its excess goods in the domest This is bad because it can put domestic producers out of business and disrupt restrict the amount of goods a country can sell in the domestic economy and dumping their goods.
- **Reduce Competition**
  Foreign countries may have a competitive advantage and are able to produce the domestic economy. Therefore, a country may impose a trade restriction i competition threatened from foreign markets.
- **Protect Strategic/Important Industries**
  During times of conflict or global instability, normal trade patterns are disrup protect certain industries that produce goods that are invaluable to the econ comparatively disadvantaged. This is because during times of disrupted trade a steady supply of these goods and, if they are protected, can get them from

Types of Trade Barriers



Tariffs

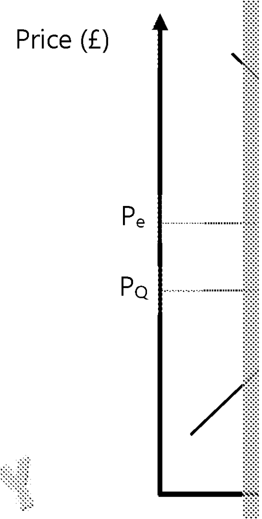
Tariffs can also be kno
duties. Tariffs are simp
pay in order to sell in
taxes increase the cos
prices on imports will

Closed to internation
The diagram to the le
The demand and supp
demand and supply. P
the economy was clos

Open to internationa
However, the price of
lower, at P_W. If the cou
trade, then domestic s
most domestic firms c
international firms. Ho
demand would be at Q
to import (I_1) in order

Imposition of a tariff
The price would be pushed up to P_{W+t}. This means more domestic firms can comp
of domestically produced goods will rise to Q_2. At this higher price, domestic dem
still greater than Q_2, the country will still need to import, but by a lesser amount.

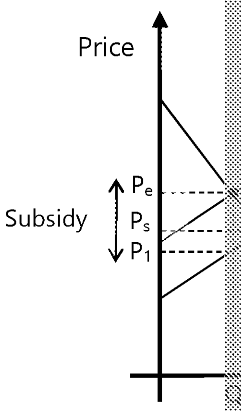
The shaded area is the amount the government will receive in tax revenue from the tariff.



Quotas

Quotas are similar to tariffs, but instead of imposing a tax on imported goods, quotas are simply a restriction or limit on how many goods and services an economy can import.

The diagram to the right shows how the demand and supply diagram for imported goods would look if the government implemented a quota. Without the quota, the quantity imported would be S_Q. However, with quota at S_Q, the supply curve becomes completely inelastic as the quantity will not change regardless of price after this point. This is the maximum number of goods an economy can import.



Government Legislation and Subsidies

A subsidy is a grant the government gives to domestic producers in order to lower their costs and become more price-competitive in comparison to international goods (see the diagram).

Subsidies work in a similar manner to taxes but the other way around. Unlike a tariff, a subsidy actually incurs a cost as governments need to give money to producers.

Other Trade Barriers

There are other ways in which a government can manipulate imports that are more
tariff or quota. For example, a government can implement expensive and long-wind
order to deter foreign trade. Environmental or health and safety regulations are anc

Impacts of Protectionist Policies

- **Consumers**
  Consumers often suffer from protectionist policies as cheaper goods are prev
  Instead consumers' demands are directed towards domestic producers who t
  disadvantage. The hope is that the domestic firms will gain a competitive adv
  to produce the goods competitively.
- **Producers**
  The impact of protectionist policies on producers will have different effects d
  producer is domestic or foreign and whether they import materials, export go
  Domestic producers could find demand for their products increases as prote
  demand shifts from imported goods to domestically produced goods. Domes
  they en[illegible]r protectionist policies from tit-for-tat retaliation from other co
  business. Some producers may import parts for production, such as a table m
  raw wood materials. These producers may find their costs increase as protect
  imported goods. Foreign producers who sell goods in the country will find de
  protectionist policies increase their prices.
- **Governments**
  Governments may add protectionist policies in due to a political agenda; for
  employment which will gain voter opinion. However, protectionist policies, su
  costly, and can create a fiscal deficit leading to debt increase. Alternatively, th
  tariff in order to gain tax revenue, although the bureaucratic procedures can
  earned for the tax. Governments can find they are met with tit-for-tat retaliat
  which can be politically and economically damaging.
- **Living Standards and Equality**
  Protectionist policies are design to protect the domestic economy and the pe
  such as domestic producers and the jobs of the workers. Without protectioni
  lose their incomes, pushing them into poverty and reducing living standards.
  domestically produced goods, jobs can be created and thereby reduce incom
  without jobs are now earning incomes. However, countries who face the prot
  and harder to export their goods. This can cause economies to decline, busin
  fall and inequality to rise.

Role of International Institutions

Role of G20

G20 is a group of 20 of the most powerful and influential economies. It consists o
Union. The EU is included [illegible] countries, such as France, the UK and Germ
negotiation [illegible] on and responsibility for other EU member countries.
of EU countries means decisions cannot be made without the involvement of all.

The G20 *leaders meet on an annual basis and there are regular* meetings for finan
governors. Meetings are held to discuss and cooperate on international economic
through negotiations.

Bilateral Trading Agreements
A bilateral trading agreement is, quite
two countries. These are like small trac
mutually beneficial trade participation

The negotiations began as a response to the Asian financial crisis and have been critical to the response to the 2008 financial crash. The decisions made at the G20 summits went a long way to boosting consumer and business confidence in the economy. Equally, the fiscal decision to economy has been accredited with saving and creating millions of jobs. Since ther the world economy out of its slump and restore growth back to its original course of financial institutions.

The G20 is supported by other international institutions, such as the IMF, United N

World Trade Organization (WTO)

What is the role of the WTO?

Formerly known as the General Agreement on Tariffs and Trade (GATT), the WTO cam the international market, much like the Competition Commission does in the UK mark competition on the global market through completely free trade between countries. T support to developing nations and allow them the opportunity to grow, expand and d tries to take into account the wider implications and so aims to stay within acceptable and allow protectionist measures where acceptable. It endeavours to function with co

How does it achieve its aims?

The WTO provides a place for trading nations to discuss and negotiate their trade within one another. From this, trade disputes can be resolved and legally-bound rules can be created.

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International Monetary Fund (IMF)

What is the role of the IMF?

The IMF was set up in 1945 after World War II. It was created in order to provide l which needed the funds to rebuild after the devastating destruction the war created. Its original aim was to prevent disastrous consequence experienced from the Great Depression in the 1930s. Nowadays it aims to assist countries to obtain macroeconomic stability and to reduce poverty worldwide.

Lea
To
wel
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How does it achieve its aims?

The IMF collects data on all sorts of variables from all across the world. This is to lea provide economic forecasts, so that the IMF can warn countries of potential shocks as advice, it also provides loans to countries that need help overcoming economic d concessionary loans when the funds are used to reduce poverty in developing coun

World Bank

What is the role of the World Bank?

The World Bank Group was created in 1944 and is made up of five institutions. Whe they mainly refer to the International Bank for Reconstruction and Development (IB Development Associati also includes: Internatic Multinational Guarante Centre for the Settleme The World Bank's aims measured as earning le *increase* the wages of t

How does it achieve i

The World Bank, like th global data and provid poverty and increase li invests in projects that improve education, health, infrastructure and natural resou low interest or interest-free loans and grants to countries that need funds.

Learn More!
Scroll about halfway down the page from the link below and [illegible] the subtitle 'Organization', you are able to explore the five institutions in the World Bank Group: **http://www.worldbank.org/en/about**

The World Bank has a large database of statistics. Have a look at some of the categories from this link: **http://data.worldbank.org/**

Exchange Rate Changes

Impacts of Changes in the Exchange Rate

- **Current Account of the Balance of Payments**
  A devalued or depreciated currency will increase international competitivene
  will appear cheaper in relation to other country. As a response the demand fo
  equally the demand for imports will fall as domestic consumption is switch to
  This will reduce any current account deficit a country may have and potential

Further Learning..!

Marshal–Lerner Condition
The Marshall–Lerner condition states that there will be an improvement in a cou
following intervention, only if the total sum of all the elasticities of all the impor
services is equal to or less than one.

J-Curve Effect
If firms have a high price elasticity of supply – because they are fixed into contra
unable to quickly change their production, then they will be slow to change to t
Domestic consumers may have inelastic demands for imports, or foreign consum
UK exports because of habitual behaviour, for example, and will be slow to chan
the pound depreciates, theory says exports should fall and imports rise which w
high elasticities mean the number of exports sold and imports bought will rema
these will change so that the value of exports falls and the value of imports rises
people and businesses adjust, the number of exports sold will increase and impo
will be improved. The J-curve effect explains that the current account deficit will
to these inflexibilities and adjustment time lags.

- **Economic Growth and Unemployment**
  If the exchange rate changes such that a country's goods become more com
  is a boost in its exports and domestic demand as people swap to buying the
  industries will increase production in order to meet this new demand, thereb
  growth and higher employment levels through the increased demand for lab

  If an economy's goods become less competitive, then there would be a decli
  fall, leading potentially to negative growth, and unemployment could begin t
  production.

- **Rate of Inflation**
  If the exchange rate changes such that the pound depreciates, then imports w
  will increase the costs of production for those firms that import raw materials
  consequently push the price up, leading to inflation. Equally, the increase in d
  in exports will also cause inflation.

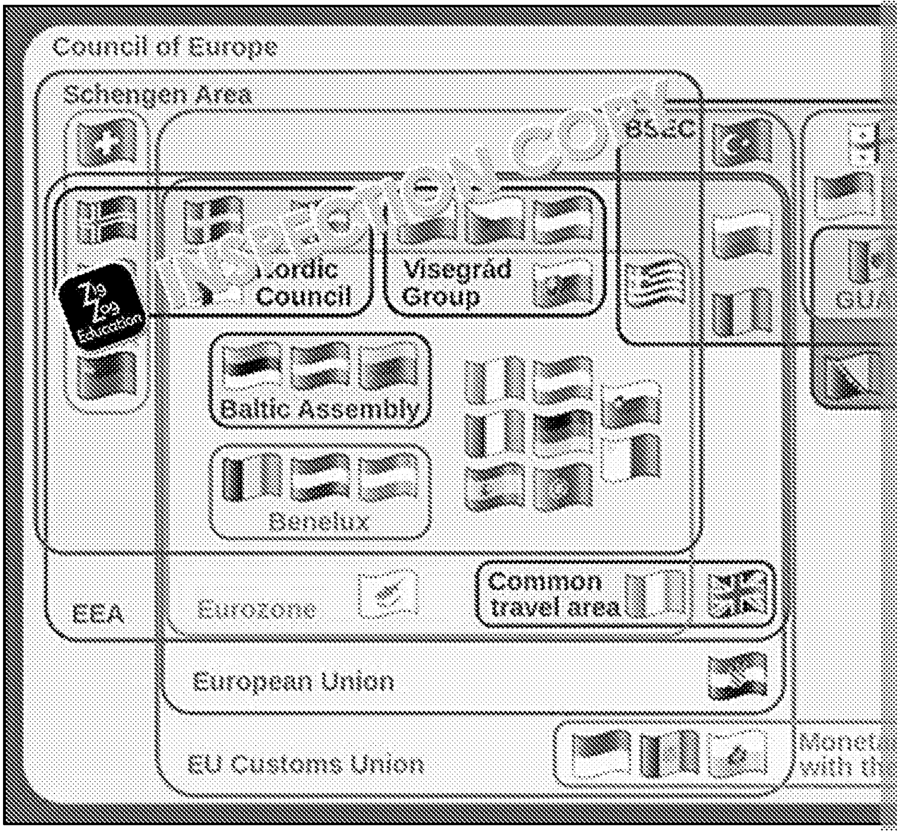
  If a country's currency appreciates, then they may experience falling inflation
  particularly if they are reliant on exports.

- **FDI Flows**
  If the exchange rate falls, then it will be cheaper for foreign companies to inv
  attract more foreign direct investment (FDI) in to the economy. On the other
  appreciated, then it would be more costly for foreign firms to invest. As a con

The Eurozone

The video below helps to differentiate the eurozone from the European Union.
https://www.youtube.com/watch?v=O37yJBFRrfg

Countries that trade with each other are interdependent. This means the actions o the other. This is especially important for the eurozone because they share a joint their own currencies, there wouldn't have been much problem if changes in the ec rate, but eurozone countries must keep the value of their currency to a particular



Questions: Globalisation (3.1b)

1. Explain why globalisation has improved living standards in countries such as
2. Explain one disadvantage of globalisation and rapid economic growth.
3. Suppose that Sandy received a nominal income of £30,000 in 2010. If the rate would Sandy's real income be higher or lower than £30,000? Why?
4. Look at the following (fictional) index for the output of strawberries at a farm

Month	April	May	June	July
Strawberry index (April = 100)	100	96	115	135

   - **a)** In which month was strawberry production lowest?
   - **b)** 'More strawberries were produced in September than August.' True o
   - **c)** Suppose that [illegible] strawberries were produced in April. How m
   - **d)** Between which two months did strawberry production increase the m

5. Explain one reason why world trade has become more liberalised in recent ye
6. **a)** Why might a country specialise in the production of a certain good?
   b) Name one disadvantage to specialisation.
7. In the context of trading blocs, explain the difference between trade creation
8. Using a diagram, show how imposing a tariff can increase domestic output o
9. Why might imposing protectionist measures not end up benefiting an econo
10. Explain the purpose of the World Trade Organization (WTO).
11. When news of the UK's referendum on its EU membership was announced, t compared to the US dollar. Explain why the exchange rate fell.
12. Explain how a depreciation of the exchange rate would be expected to affect:
    - **a)** the inflation rate
    - **b)** the current account of the balance of payments

Economic Factors in Business Ex

The UK government has a mandate to encourage overseas trade and after the Bre
a hot political topic. As the prospect of trading with EU countries comes into ques
considering alternative markets to the EU. In addition, existing trade agreements m
rationale for trading with certain countries will be revisited.

In an increasing global economy, a business may feel that staying local will restric
that trading overseas is a necessity to maintain competitive advantage.

Global Economies

A business in the UK does not operate in isolation from the rest of the world. It m
materials may have been imported. Thus, it is influenced by international exchang
supply. The decision to trade overseas may be one of necessity as the local marke
resources a[illegible] needs. An example of this is with manufacturing industries w
products. C[illegible]e source raw material for steel. Over the last few decades, the
declined significantly. Canadian coal became cheaper to import than sourcing UK
decline in manufacturing capability and British steel manufacture also declined. A
UK followed this decline. As of 2014 there were approximately 35 active British ca
defunct British car manufacturers. This is the economics of global supply and dem
have set up shop in the UK, enticed by favourable land and labour rates and with
manufacturing base is niche specialised and has specifically targeted markets abro
these companies have had to trade overseas.

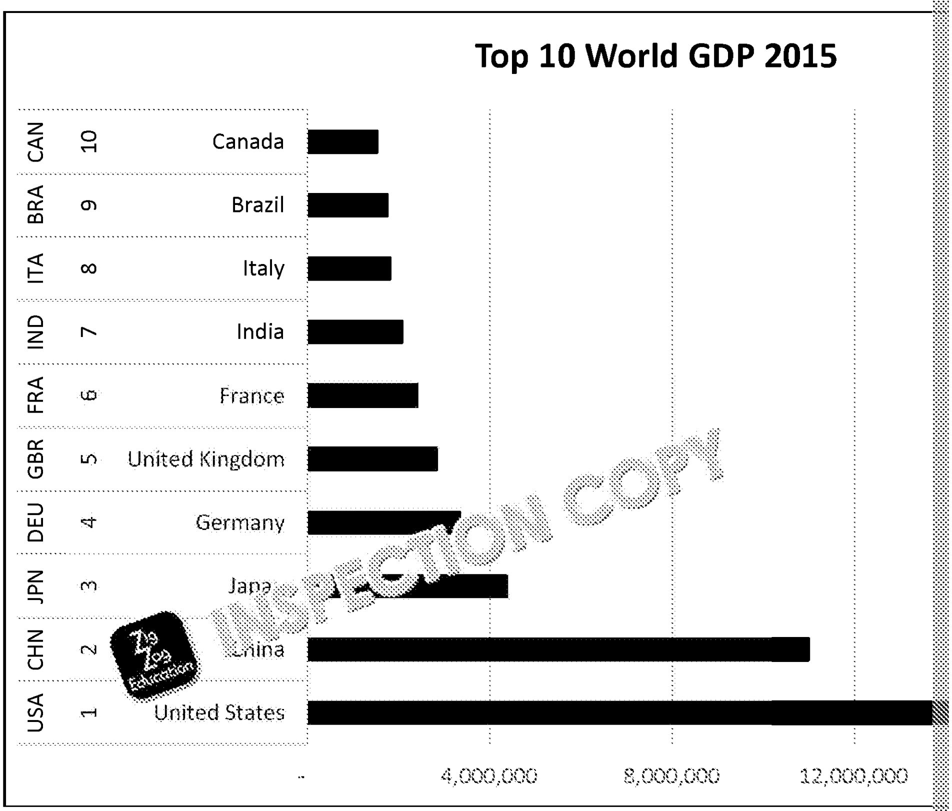
Decline of domestic market

A company may be literally forced to seek out overseas trade opportunities due t
market. This could be due to competition from domestic or overseas firms or soci
cases, the capacity for production outstrips the demand domestically. Rather than
resultant job losses a firm can seek out new markets for its surplus products.

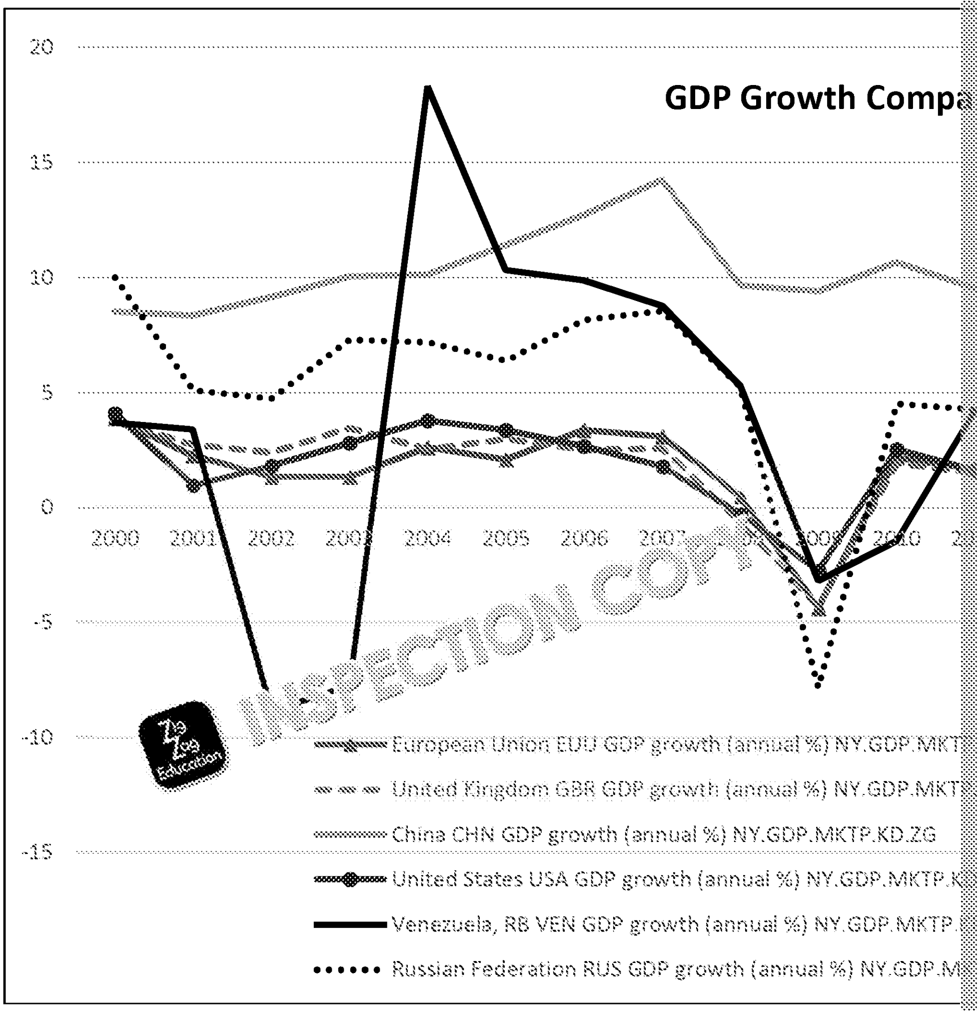
World Economics

At any one time, there are a variety of global economic factors affecting the buyin
and companies alike. International exchange rates fluctuate and significant chang
factors, such as a new USA president; illness of a significant global leader; change
weather catastrophes such as hurricanes and floods can affect crop growing, caus
change in sourcing that supply. During the recessions of the 1990s and early 2008
their spending to necessities and away from luxury items. A recession has a 'shape
recession are at different points on the curve, either [illegible]
closer to coming out, or closer to going into recession.
This shifts the potential for trade [illegible] from
countries that are struggling [illegible] those that are
handling a recession [illegible]

Learn More!
Extended reading or
https://openknowled
6/16359



Source data: **http://data.worldbank.org/data-catalog/GDP**



In the next section, we will look more closely at the conditions that prompt trade.

Questions: Economic Factors in Business Expansion (

1. Select one advantage and one disadvantage from the table below and expl
   from UK businesses.

Advantages of trade	Disadvan
• Exploiting comparative advantage leading to greater efficiency and low opportunity costs • Economies of scale due to the higher level of production where the exporting country has a comparative advantage • Increased competition which leads to efficiency, increased purchasing power for consumers, and a bigger consumer surplus • Quality of goods and services likely to rise due to competition, e.g. if a domestic monopoly faces competition from abroad • Increased employment in export-related industries	• Overspecialisation lead to structural u • Infant industries m which they could h through protection to grow enough • Cheaper imports m leading to even mo industries, with the structural unemplo its comparative ad

2. Consider the graph on GDP comparison – what three conclusions could you
   firm's decision to export?

Conditions that Prompt Trade

Push Factors that Prompt Trade

For any UK business, choosing to trade overseas is a big step and usually requires investment of some sort. Despite government encouragement, the unknowns of overseas trading can put off many businesses. However, there are situations that force a business to consider overseas trade; these are known as 'push' factors.

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A company may find that their domestic market has become saturated; they cannot increase sales as there is no additional demand for their product or service. This could be because their product is now outdated or consu their version and are buying a competitor's product. Whatever the reason, the co needs to either seek new markets or create new products. It is sometimes far mor overseas market than to spend a lot of money on new product development. Plus expanding into an overseas market can then generate revenue which can be funn development in the UK.

There can be various reasons for market saturation – see **http://simplicable.com/** examples. However, the problem remains the same – how to reach new markets f downturn in profitability.

Competition as a push factor in moving into overseas markets

Unless a business operates within a monopoly it is going to face competition. This innovation-based, or simply being out-marketed by the 'new kid on the block'. If to a competitor it can either revamp its domestic efforts or look overseas for a ne process of developing marketing for a new market can sometimes improve a firm price is a factor in the competitor's model, then overseas production can give cos be an inbound choice, i.e. sourcing cheaper raw materials and/or labour. Relocati abroad can create a price advantage and a company could reclaim its domestic m aggressive pricing policies. However, if growth in the domestic market is slowing way, then looking for overseas markets is the only option for a firm to expand.

Pull Factors that Prompt Trade

Economies of scale
At a basic level – the more you are able to produce the lower the cost per unit is likely to be. The bigger a company the lower the costs of production per unit.

If a firm can utilise economies of scale its variable costs will drop and the cost lower. So, as it costs the same to produ does 10,000 units, the latter is favoura many units.

Restrictions on a firm being able to gain economies of scale are usually the costs expansion. So, a UK firm wishing to expand its operations may face prohibitive la expand to an overseas country where land, building and labour costs are lower. W their unit costs, produce more and increase their profit margins.

This has worked in reverse for the UK where UK governments have offered overse factories in the UK. The government wishes to encourage firms such as Nissan to in areas where manufacturing has declined. For Nissan, access to a skilled labour f in keeping costs low made it an attractive prospect.

Learn More!
Useful reading: **zzed.co.uk/5869-sunderland**

Risk spreading as a pull factor that prompts trade

All firms face risk as they expand, grow and develop new products. Existing produ competition and changes in the economic fortunes of the host nation. One of the for a UK company may be a desire not to 'have all one's eggs in one basket'. In o market and that market suffers setbacks, you are at risk of profit loss and ultimate

The decision to leave the European Union in 2016 sent waves of alarm for some c market was Europe. In addition, the concerns that this decision would negatively i that companies who only sell to UK customers faced concerns that this would see loss of profit.

Risk spreading is not always as negative an approach as it seems. Balancing the de allows a firm to maintain its UK presence and expand into growing markets. The e domestic market creates a shortcut to developing an overseas presence. There are where demand is high and local companies do not have the expertise to meet tha established UK firm an advantage. Only [illegible]% of the world's GDP comes from the Uk available to target! Selling to multiple companies allows you to balance your portf can be offs[illegible] growth in another. Globally countries go through differen spreading approach can allow a firm to achieve a balance.

Possibility of Offshoring and Outsourcing

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Offshoring and outsourcing may be options a firm selects to reduce costs and to tap into expertise lacking within the company. This can be in the same country for outsourcing but is in a different country for offshoring.

Reasons to offshore a process

The costs of materials, construction and labour for construction may be lower in other countries so the actual building costs overall are lower. Land is at a premium in developed Western countries. Overseas land costs are, therefore, likely to be lower.

Certain countries focus their education on specific areas, so there could be a high programming skills in India. The cost of living in some overseas countries is much also lower. Some countries do not have a minimum wage set and so overseas co market rate which can be significantly lower than in the host nation.

In recent years offshoring has had a lot of bad press and companies are rethinking the backlash by UK customers against offshored call centres as being poor custom differential between European wages and those of, say, China is shrinking. The Ch up while European wages have stayed mostly stagnant. Added to that supply chain i being manufactured abroad and transport costs to get them to European markets the economic benefits of previous years.

However, what is occurring is that as overseas markets grow in sophistication and the offshored facility now becomes the 'onshore' facility for that overseas market.

It now makes economic sense to base a factory in China, and to supply the Chines countries with your products.

As globalisation increases so demand factors come into play and a UK firm may s establish a 'local' base in an overseas market.

Reasons to outsource a process

Outsourcing when using overseas firms is more specifically aimed at lowering costs and tapping into expertise. Good examples of this are digital outsourcing where a company uses an overseas firm to design its website; manage social media; create content for its digital presence; manage email marketing; or design logos or packaging. Many of these are professional services that can be delivered digitally, have little to no overheads and payment is made upon completion. This can be a very efficient way to trade overseas as it is payment on results, there are no staffing on-costs (e.g. national insurance) and the firm does not have to develop expertise in an area that is not its workforce's main skillset.

Outsourcing
This is where
company or i
process / set o
itself does not
outsourcing i
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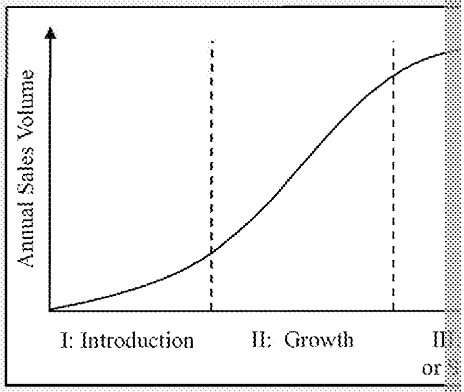
Further Learning...

Product life cycle: trading overseas

Traditionally firms reach the maturity stage of a product life cycle they are launching new versions, upgrades, or additional product features to prolong the life cycle. Sometimes new products are released just before decline and the whole cycle starts again. Most firms aim to have a portfolio of products and services at different stages in the cycle to ensure a continuous flow of supply meeting demand and creating profit.



Utilising trade overseas is an additional way to extend the life cycle of a product
The premise is to launch a product overseas once it is between growth and mat
this are as follows:

1. The product is established in the domestic market and production costs
2. The expertise associated with the product is stable and so marketing to known variables.
3. The product has an established consumer base and so consumer profili
4. Overseas markets have less competition and the product is viewed as 'n than in the UK.
5. Costs may be able to be reduced further by manufacturing the product 'local' source in the other country.

There are disadvantages too.

1. Once the product is launched in the other country it becomes subject to
2. Once the product is marketed overseas, then overseas companies c market share.
3. Overseas companies can then market their cheaper copy back to the or and take market share away in the domestic market.

If a firm decides to move into trading overseas as a product life cycle extension
this is a limited time strategy, with the above potential disadvantages of openin
competition.

Raising Capacity Utilisation

Example of capacity utilisation as a percentag

$$\frac{\text{current output}}{\text{potential output or capacity}} = \frac{\text{80 widgets per hour}}{\text{100 widgets per hour}} = 80\%$$

A firm may be able to meet its productive capacity but does not do so as there is no market for the additional production. If the domestic market will only buy 80 widgets, why make 100? As the costs for making the additional capacity are very low it makes economic sense to maximise output and find a market for the additional capacity as it will deliver good returns. This is where a firm will then consider trading overseas to sell additional goods and maximise its capacity utilisation.

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There are certain restrictions on this. Firstly, the shipping costs cannot be prohibitive. Secondly, the goods must be in the same / similar format as manufactured for the domestic market. Variations or changes to the format will be cost-effective if too many changes need to be made to the manufacturing proces different language packaging, are acceptable.

This is different from simply selling surplus goods to an overseas market. In this sit increase production to utilise capacity, having identified an additional overseas ma

Questions: Conditions that Prompt Trade (3.2.1)

1. Read the article below and write a compelling argument for a UK firm to co export market.

Buoyant Brazil beats boom and bust
Brazil has changed out of all recognition over the past two decades and n powerhouse BRIC economies joining the new elite of Russia, India and Ch has plentiful natural resources including oil and gas, massive agricultural industrial base and a growing middle class.

The world's fifth largest nation, with a population of approximately 200 m economy and by far the largest in South America, has one of the world's n economies and a Gross Domestic Product (GDP) per head that is greater t 400 of the world's 500 largest companies operate in Brazil. These include as Rolls Royce, BG Group, Shell, BP, JCB, Rexam and Experian.

***Goldman Sachs** reported that it has the potential to be one of the world's by 2050.*

Brazil has shown solid economic stability. In the past 10 years, more than been lifted out of poverty into the emerging middle class. Brazil has seen a 3.4% GDP growth over the last 4 years.

The boom is largely down to growth resulting from rising food and oil pric In recent years large reserves of oil and gas have been discovered off the is currently the world's ninth largest oil producer with keen ambitions to b

Source: **https://www.gov.uk/government/publications/exportin**

Learn More!
https://www.gov.uk/government/publications/ov

Questions: Conditions that Prompt Trade (3.2.1)

2. Read the following case study extract.

Give two reasons why Delamere Dairy (manufacturer of goats milk) turned t
why they are successful.

> ***Delamere Dairy Case Study***
>
> ***Delamere Dairy spreads around the world***
> *It pays to follow your customer, as Delamere Dairy can tell you. From farm green Cheshire countryside to being a pioneering exporter into 20 countrie remarkable one.*
>
> *By 2002, turnover was more than £2m and a new site was required. At tha made to outsource production rather than build a brand new facility. That the business model ever since. The focus: follow market demand.*
>
> *"When the recession came, we were concerned that our business was sellin products almost exclusively in the UK," recalls Salt.*
>
> *An export strategy would de-risk the business further.*
>
> *Export didn't just de-risk the business, it propelled it forward. The UK rema butter, so to speak, but it's the export growth that has been stunning. Its in ahead by a remarkable 214 per cent over its past two financial years.*
>
> *The company now sells its dairy products into 20 countries, including Chin Exports now account for 20 per cent of the company's £25m turnover.*
>
> *(In China) the initial idea had been to focus on selling goats' milk, it soon b milk was where the volume business lay. "China is a massive dairy produce the world but they can't produce enough to meet the demand," he explains*
>
> *"The Chinese dairy market will double in the next ten years but I believe th the next 20 years. It's the last great frontier of dairy. You only need a small your volumes to be huge."*
>
> *In addition, demand for quality standards in the wake of food health scare Western dairy products more appealing.*

Source: **http://www.greatbusiness.gov.uk/delamere-dai**

3. Identify three products that YOU feel could have their product life cycle exte
overseas. Give reasons for your choices.

Assessing the Potential Different Economies

Before deciding to trade with other countries a firm must identify the potential of
partners. Trade is a partnership and the two key areas being assessed will be whet
consumer market and/or a good production location.

Levels and Growth of Disposable Income

Clearly it makes sense to be certain that consumers in other countries can actually afford the products/services a company is looking to export. However, it is not just the disposable income of the target market but also spending patterns and buying choices consumers make. In countries such as the UK we consider disposable income to be the remainder after mortgage/rent and utility bills plus food essentials are paid for. In other countries, home ownership may be lower; more rental properties may exist; food may be a smaller part of weekly expenditure [illegible] leisure patterns are different.

If a company is operating in a niche market, then disposable income may not be a
consumers interested in the niche product may be small and very specifically defi
money and price are far less sensitive. Conversely, a company targeting a very ec
may find its product simply too expensive for the majority of the population and c
target for production location.

Companies do not just trade with the consumers in other countries but with other
disposable income being considered is the financial health of a potential business
medical instruments business in India would focus on the company's ability to pay
the Indian business's overall financial stability.

Ease of Doing Business

Some countries are simply easier to trade with than others. One of the challenges
overseas is whether this has been done before with any success. Developing mark
sophistication of European countries or any established procedures, which can ca

- Most companies would be well advised to consult with export experts and government's own website: **https://www.exportingisgreat.gov.uk/**
- In addition, the Chamber of Commerce has a specific guide and support f markets: **http://www.britishchambers.org.uk/business/international-trade/**

Although smaller firms may feel that international trade is only for large organisat
market is selected carefully it can bring big rewards.

'Statistics from UK Trade and Investment (UKTI) show that companies that take the plunge and secure sales abroad improve their productivity [illegible]4%. They are also 12% more likely to survive and excel in the world of business than those who don't export.'

http://www.smarta.com/advice/suppliers-and-trade/import-and-export/how-to-start-trading-internationally/

Many companies face similar barriers to
monopolies, legal issues and corrupt pr
Competitions and Market Authority reg
potential monopolies in this country, bu
countries. However, this is an improvin
the European Union, Australia, Brazil, C
Zealand, South Africa, South Korea, and
high-profile anti-trust legislation and ta
court over monopolistic practices in rec

Legal issues are more complex to deal w
consider trading overseas without a leg
laws of the potential market country. T
and corruption issues. There is a need f

representative who understands these practices. Then it is a matter of ethics as to
wishes to engage in these practices in order to secure overseas deals. Generally sp
guilty of bribery is likely to suffer far more severe penalties than a local firm, so it
remains above board or else a different target market may be more appropriate.

Infrastructure

One of the most crucial dimensions to overseas trade is the ability to move goods
country and between the trading nations. This is especially important if the trading
in the other country.

Partnerships with local supply chain companies is a practical solution. In certain co
adversely affected by weather conditions (e.g. monsoons, hurricanes, flooding) an
considered when planning trading. Access to ports in a country may be limited, an
transport required to reach more [illegible] consumers.

If establishing a base in an overseas market, then the availability of transport for c
is not much [illegible] having an outlet that can only be reached by car if all your cons

Political Stability

The Foreign Office keeps an eye on political activity across the world and will issue travel warnings for countries they deem unsafe for British travellers. At the extreme end of political stability is civil war but even where there is no civil unrest, a change of political leadership in a country can destabilise any foreign investment and has the potential to radically alter trading agreements.

Article on political insta
Consider from this article
the impact that has on co
zzed.co.uk/5869-emergin

How to determine a score for ease of business overall

The World Bank ranks countries on a score based on ease of doing business.

> *'Economies are ranked on their ease of doing business, from 1–190. A high ease of d*
> *regulatory environment is more conducive to the starting and operation of a local fi*
> *by sorting the aggregate* **distance to frontier** *scores on 10 topics, each consisting o*
> *weight to each topic. The rankings for all economies are benchmarked to June 2016*

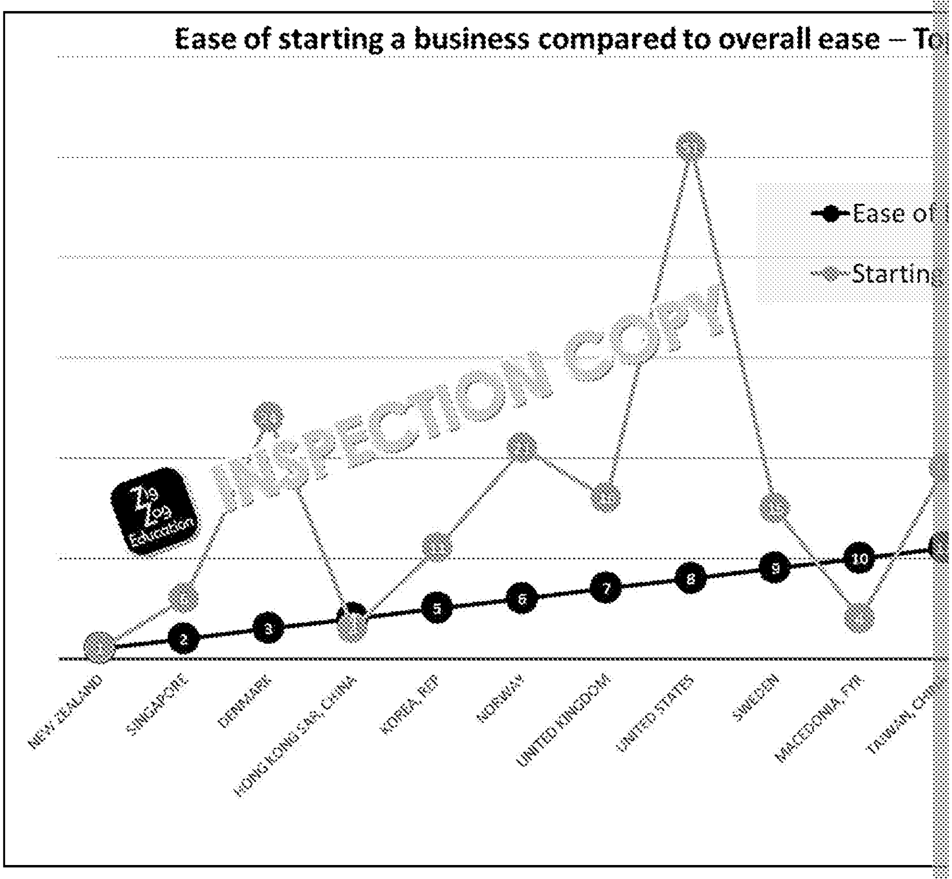
Source: The World Bank: **http**

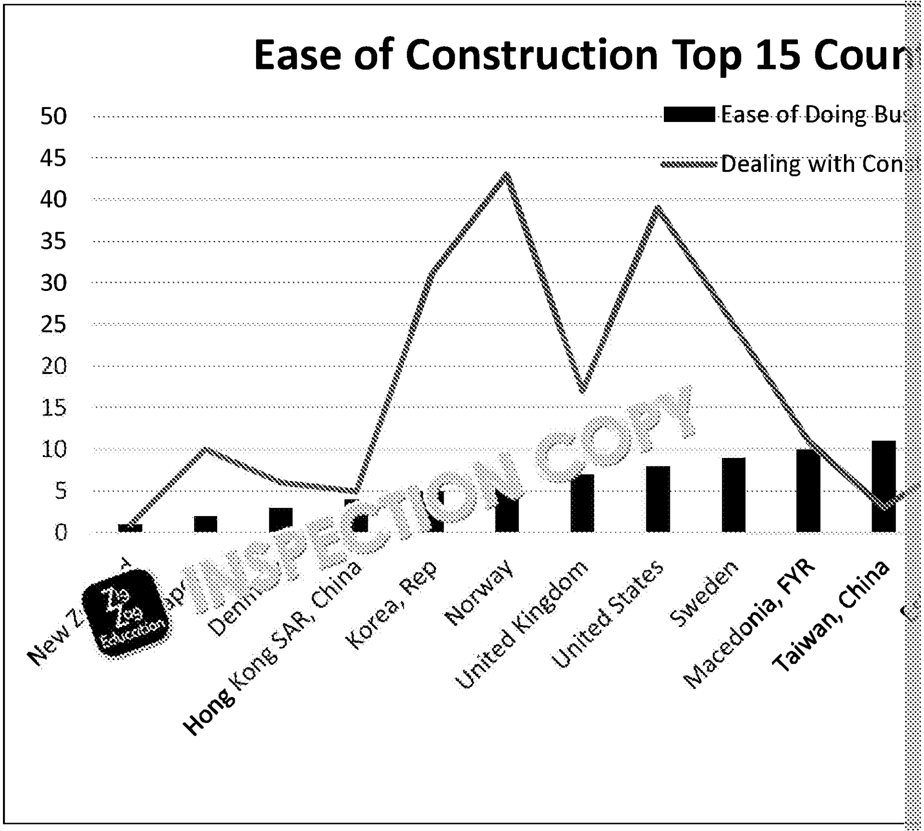
The 10 topics used by the World Bank to score countries are: starting a business; d
getting electricity; registering property; getting credit; protecting minority investo
borders; enforcing contracts; resolving insolvency. Thus, you can see from the gra
25 ranked countries, from left to right, that New Zealand ranks as No. 1. It is, howe
category of trading across borders and 34 in the category of getting electricity. Th
island with limited trade agreements with neighbouring countries and it also has a
regions with [illegible] access to utilities.

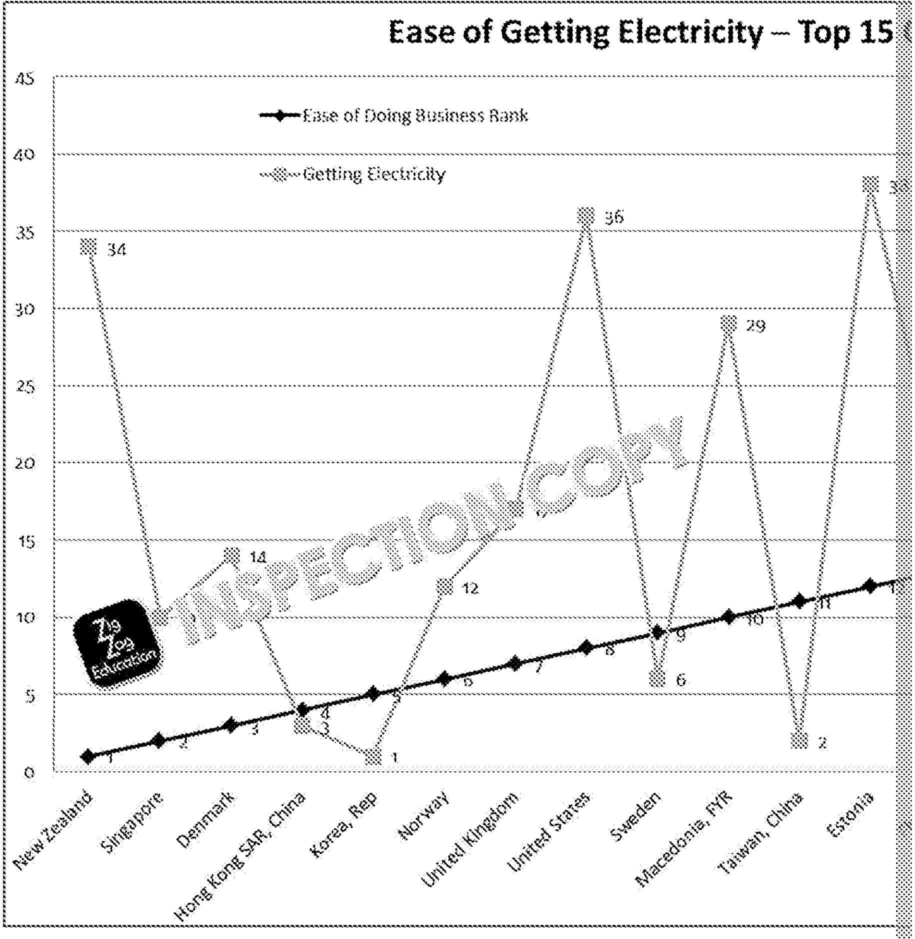
How easy it is to do business with an overseas country will, therefore, depend on
utilised and which are the priority areas to consider.

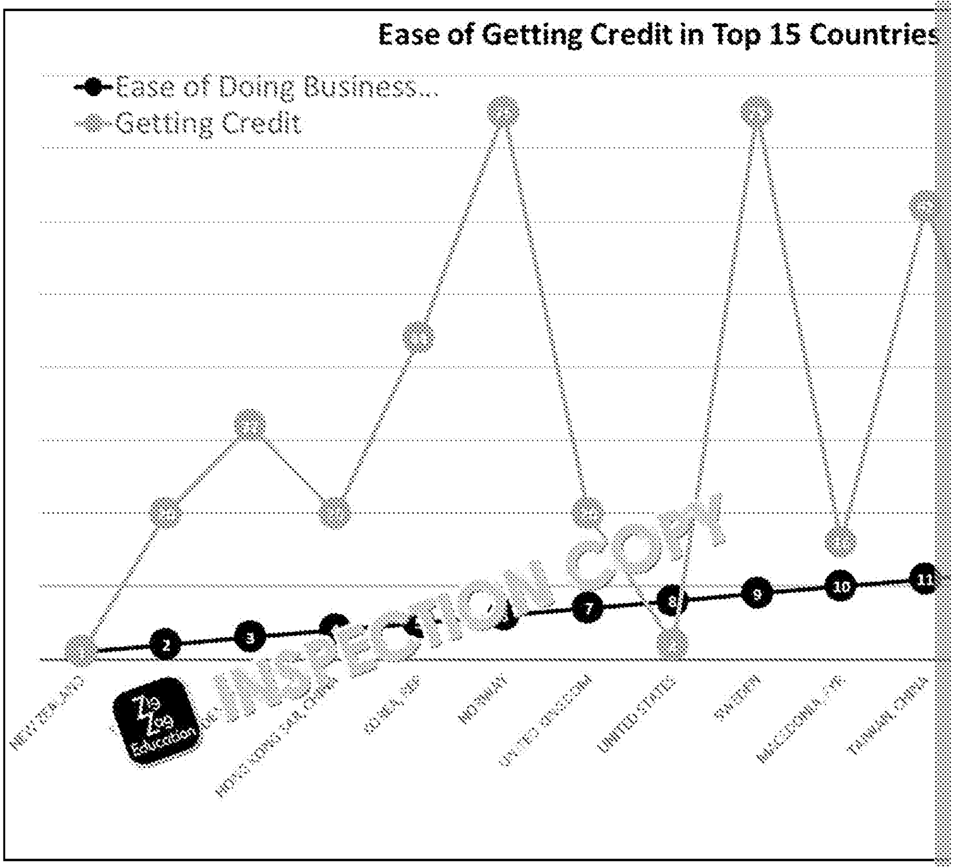
Other useful comparisons a company can make is to use the data from the World
sites to identify crucial factors such as disposable income; Internet usage; political
rights. So, for example, a world map of Internet users, such as at:
http://www.theglobaleconomy.com/maps/Internet_users/ would help identify
efficient with specific countries.

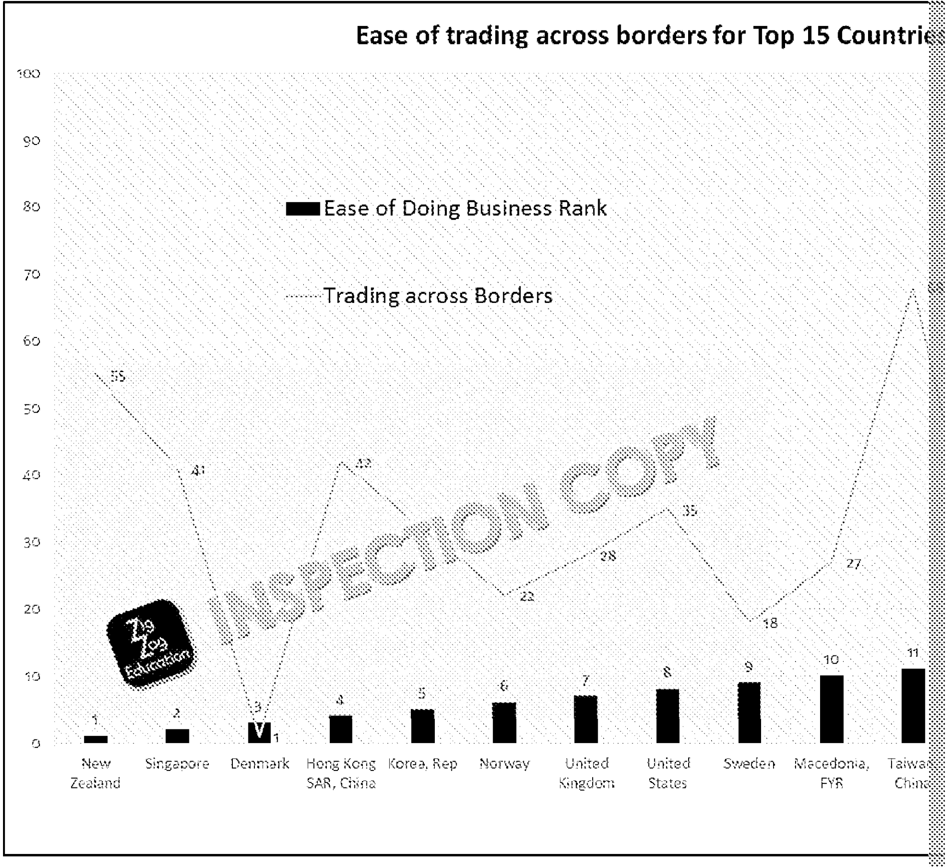
The World Bank uses a variety of factors to assess the ease of doing business – the
15 countries in the overall ease of doing business and some of these different facto






Ease of Getting Electricity – Top 15
45
40
35
30
25
20
15
10
5
0
Ease of Doing Business Rank
Getting Electricity
34
14
3
1
12
36
6
29
2
1
2
3
4
5
6
7
8
9
10
11
12
New Zealand
Singapore
Denmark
Hong Kong SAR, China
Korea, Rep
Norway
United Kingdom
United States
Sweden
Macedonia, FYR
Taiwan, China
Estonia


Ease of Getting Credit in Top 15 Countries
Ease of Doing Business...
Getting Credit
2
3
7
8
9
10
11
NEW ZEALAND
HONG KONG SAR, CHINA
KOREA, REP
NORWAY
UNITED KINGDOM
UNITED STATES
SWEDEN
MACEDONIA, FYR
TAIWAN, CHINA


Ease of trading across borders for Top 15 Countri
100
90
80
70
60
50
40
30
20
10
0
Ease of Doing Business Rank
Trading across Borders
55
41
3
1
42
22
28
35
18
27
1
2
3
4
5
6
7
8
9
10
11
New Zealand
Singapore
Denmark
Hong Kong SAR, China
Korea, Rep
Norway
United Kingdom
United States
Sweden
Macedonia, FYR
Taiwa Chin

International Exchange Rates

Most Western companies trade in one of two or three currencies, namely the US d
especially within the EU, although the Brexit choice for the UK may change this as

When trading overseas a smart move is to have bank accounts in several currenci
of exchange rate fluctuations on a daily basis. A company needs to identify what i
in local currency and what reserves of other currencies are needed. This will also b
whether to set up a local trading arm in the overseas country or run everything fro

Currency fluctuations can have a devastating effect on profitability and so compa
these fluctuations by buying and selling currency at fixed prices, sufficient for a kn
pound rate, for example, in the year February 2016 to February 2017 ranged from
£1 = $1.49, but the overall trend for the last five years has been downwards, with
Among the weakest currencies in the world at the start of 2017 were the Iranian ri
Leone – both countries are in the throes of civil war and Iran has banking sanction
countries with weak currencies are Vietnam, Indonesia, Cambodia, Paraguay, Laos
with good natural resources but a lot of corruption and political instability.

A target country for an investor could be Uganda, which is rich in natural resource
growing economy, but still has a currency that is weak against the US dollar.

Why do companies fail overseas even when the target market seems s
On a number of indicators one could assume that a UK company could do well in,
always the case. There are no language barriers, the legal systems are fairly compa
same things, don't they?

Even large companies with established trading patterns and expertise can get it w

Tesco Case Study
In 2013 Tesco finally admitted defeat and pulled out of the US market. It tried
stores in the US in 2007 and failed miserably.

The model it was trying to sell was ready-made meals to a US consumer that w
cooking their own meals.

The **costs associated with abandoning its Fresh & Easy US business**, togeth
year's **UK-driven profit warning**, will mean 'the biggest fall in profits in the co
Clive Black, analyst at Shore Capital.

Tesco is not alone in failing to crack the US. The history of retail expansion is li
foreign-based groups that failed to build big American businesses.

But some foreign food retailers do just fine. Aldi has flourished in the US, as ha
family trust of one of the Ger[illegible] brothers behind the hard discoun
to have shown interest in buying some of Fresh & Easy's stores.

Despite carrying out extensive market research – even posing as a research co
Tesco misread the US market and embarked on a misadventure that ended up

People familiar with the situation say the escalation came primarily because of
try to crack the US.

---

[2] The currencies are measured against the US Dollar as a benchmark.

eBay Case Study
In 2004 eBay decided on an aggressive marketing campaign to establish a bas
Alibaba saw this as a threat to their operations of wholesale and supporting sm
conducting business online. With their unique understanding of Chinese consu
culture, Alibaba launched a competitive site which eventually forced eBay to le
in 2010.

Discuss: Why did eBay fail to win a foothold in China – and why was it outsmarted by local company Ali-baba?

Learn Mor
Full story:

Factors Influencing the Location of Production Sites

When considering an overseas country as a production location, many of the sam
looking at the market in the first, home country, but there are additional conside
are far more significant when setting up in another country and local representati
lower but labour laws may also be different. As business becomes increasingly mor
other count[illegible]comes more aware of working conditions across the world. The
come under heavy international criticism and consumers have boycotted compan
subsistence levels of income.

Typically, wages in third world countries are lower than in Western countries and
However, with minimum wage agreements around the world a company cannot a
with perceptions of labour force exploitation.

Costs of production

If looking to utilise economies of scale a UK company may relocate its production
meaning it can build larger manufacturing premises and produce more goods tha

Labour costs, even if set at reasonable levels, are still lower in countries such as Th
more recently Mexico, which has the advantage of being very close to the USA fo
India are both growing economies whose wages are rising.

Production costs need to factor in shipping and delivery costs so the distance fro
consumer has to be considered.

Skills and availability of labour force

Cheap labour is no good if it cannot actually do the work required. Most manufac
of computer and engineering skill. Old traditional manufacturing jobs are falling a
shedding these jobs but cannot find highly skilled workers to operate what are no
plants. The skills required are software and engineering skills, which are in short su
in the UK. China has become the largest manufacturing labour force in the world;
also why their wages are increasing.

A UK firm looking to locate its production abroad needs to match the educatio
overseas workforce with that required to run production. In service industries, suc
more available in more countries, as too with retail, so these types of business hav
international markets. However, these are consumer markets rather than tradition

The picture changes when considering sourcing natural resources from overseas.

Availability of natural resources

Considering the chain of production, the closer the first two stages can be togethe dwindling resources in the Western hemisphere, a UK company may relocate its p the natural resources needed to make its finished product. By combining primary production in one country, transport costs are reduced and the partly processed g where the skill set exists for that part of the production. The overseas labour force agriculture and mining, for example, which utilises a skill level, sources the materia production costs.

Ease of doing business, infrastructure and political stability are even more crucial locating production in another country. Access to good transport links, efficient el pro-Western government are all factors that support success in overseas producti

Government incentives

To attract business to their shores, many national governments have devised incen companies to start up in their countries. However, in the last couple of years there to protectionism, notably with the USA deciding to close its borders to certain ove American firms to expand within the USA.

There are a number of projects across the world aimed at improving economic gr which aim to encourage business to develop innovative solutions to a variety of s example is TRAC (TradeMark East Africa Challenge Fund). Funding is available for change; environment; women's education; private sector and trade business. An in advantage of these types of projects with financial and cultural support.

Canada is offering incentives to overseas businesses to set up in Canada as they o infrastructure, access to a huge market and low business tax costs. Plus, with the r expected in February 2017, this new trade agreement between the EU and Canad goods and services.

Trade blocs and Trade agreements

Countries that have been trading with each other for some time have formalised t covering tariffs, policy and procedures. This is beneficial for those who are party t other countries out in the cold and even prevent them from trading. One of the c leave the European Union is over whether this denies UK business access to the E and most established trading blocs in the world. Within a trading bloc, certain res made easier to transport across, which conversely is one of the concerns for anti-E good for trade but have security issues.

Another trading bloc under discussion during 2017 is the North American Free Tr Mexico and Canada. Arguments against this trade bloc are that Mexico has benef little and the impact for Canada has been negligible. Trade blocs can act as barrie outside of the bloc which may protect businesses inside but artificially inflate prices inventiveness and creativity as the market is limited to those countries within the

True free trade where a business can trade with any country and in any country, when economies are struggling.

Trade blocs will *restrict the countries a company can set up production in* and trad

Return on investment

Ultimately, the decision to trade overseas, whether through marketing of existing setting up production facilities overseas, will depend on the perceived return on i

Government in the UK is actively encouraging UK business to trade overseas. They and in some cases funding to reduce the risk. However, trading internationally co

Using local experts can reduce the risk but adds to the cost. Establishing the mark investment decision. Some companies venture online first to test the international products. There are still tax and legal issues to consider when trading online but t Running a pilot programme of trade is a way to identify the potential return on in funds to a fully developed trade arrangement.

Learn More!
Useful links on exporting to specific countries:

- Bangladesh: **zzed.co.uk/5869-exporting-bangladesh**
- Canada: **zzed.co.uk/5869-exporting-canada**
- China: **https://www.gov.uk/guidance/exporting-to-china**
- Mexico: **http://atlas.media.mit.edu/en/profile/country/mex/**

Questions: Assessing the Potential Different Economie

1. A designer shoe company in London is considering expanding its manufactu in Hackney to create a high-street version of their top-selling shoes. They ar factory in Nottingham but have noticed that a lot of their customers are tou They have been approached by business people from China, Canada, Bangla to production of these shoes overseas.
   a) Should the company consider marketing abroad before moving produc reasons for and three reasons against this.
   b) State five questions you would want answered before even considering of these countries.
   c) Using the useful links above, make an argument for selection of one co

Impact of Globalisation on Global C

Responding to Global Demand

Globalisation vs Glocalisation

Glocalisation means that you take into account local factors when thinking global a one size fits all strategy when marketing and even when creating your product o product are tailored to meet local consumer needs, including language, colour an

There is a desire across the world to access brands, products and services seen on read about in magazines. The interconnected world means that consumers are far exist outside their national borders. Where there is a demand the business respons simple when you are talking about raw materials supply and demand. However, w wants rather than needs your marketing strategy has to take into account a numb differ widely from your national market. Hence the idea that a company needs to

This phrase originally started in an environmental context with the idea that your lo positive or negative impact on the world's environment and eco system. Nowaday when looking at differences in supply chains, language, culture, customs, and relig globally but marketing at a local level.

While there is more consumer awareness and, therefore, global demand for intern themselves can influence whether their products and services have global reach. T Industries such as the fashion industry are truly global in their supply chain; sourci materials from all around the world. Strategically placed showcasing at fashion ev the world are their direct promotion to the potential end user. They are marketin wealthy, fashion-conscious style leaders and celebrities, and the rich and famous e also created a huge copycat market internationally as competitors strive to achiev the designer price for demanding consumers.

How flexible does global marketing need to be?

When considering overseas markets a company assesses its own capacity and the responsiveness to an arrival into that country. One of the models that is useful for matrix (see below). By identifying certain factors a company can establish how mu required. The matrix shows four models of varying degrees of adaptation that refl globalisation. For many markets, it is not simply a matter of exporting or selling yo in your national country.

The Bartlett and Ghoshal Matrix

	Low pressure for local responsiveness	High pre respo
High pressure for global integration	GLOBAL	TRANS
Low pressure for global integration	INTERNATIONAL	MULTI-

Explanation of Bartlett and Ghoshal model

The pressure for **global integration** is subject to the company's own constraints.

a). How important is it that their product or service has a strong brand identi international level? Macdonald's, Nike and Coca-Cola are all strong brand

b). How crucial is it that production is standardised or uniform and that econ Pharmaceutical companies are examples of highly regulated and standard products to be the same regardless of country of sale.

The pressure for **local responsiveness** looks at two factors:

a). How strong is local competition and how responsive is the firm to local ne is restricted by American trade tariffs and faces fierce competition from U

b). How strong is the influence of local tastes, customs, cultures or religion o demand? MacDonald's cannot sell beefburgers in a culture that regards the cow as a sacred animal; so, for example, in India they primarily sell chicken-based and vegetarian products.

Learn More!
Useful article: 'How McDon
http://www.bbc.co.uk/news

Different approaches to global marketing

D
m
in
te
m
de

Wind, Douglas and Perlmutter devised a framework to show the development of a company's international marketing strategy that takes its starting point from the internal mindset and beliefs of the company. They look at how committed the directors are to internalisation; looking inward to the company rather than outward to potential market differences.

A **domestic** marketing strategy ignores the potential of international markets and is focused solely on national market needs and desires. It may proud and create products and services customised to the host country's unique nationa create a global demand among international consumers seeking to buy somethin example, but that is not its intention.

Ethnocentric marketing assumes a certain national superiority over other countri sell exactly the same product abroad as the national version without accommodat differences. It can sometimes be used to get rid of surplus product but it makes n competition either so can fall foul of copycat versions that are cheaper or altered tastes. When Nissan first started to sell its cars in the USA, it adopted an ethnocen has a polycentric approach, understanding that each market has unique needs an

Polycentric
Each country treated as unique by host nation company

Domestic
Domestic market is priority – all products and services tailored for a national market only

Ethnocentric
Host nation is superior and so other countries treated as if have same likes and desires

Regioc
Target countr
by similarities
regional cha
e.g. Scandina

A **polycentric** approach to marketing understands the uniqueness of each countr
Local customs, cultures and preferences are catered for. Most companies with this
labour forces, materials and resources. They adapt their product to reflect local av
points and employ local supply chains. This is where a glocalisation strategy is imp

A **geocentric** approach targets a global consumer, based upon common likes, de
adopting this approach may base its manufacture in one country, its marketing in
another. The idea is to borrow expertise from different countries and maximise th
of the organisation. Consumers are seen as connected via their tastes, and produc
and clearly identifiable. One could see Apple as adopting a geocentric approach i
regardless of country differences. It targets a global consumer who is tech-savvy,
adopts a specific lifestyle or aspires to one. Companies adopting this approach wa
but need high levels of capital and constant research to be successful.

Further Learning...

A more refined version of an aspect of the global approach to marketing

A regiocentric approach to marketing groups countries according to similarities
and language. A company finds economic, cultural or political similarities among
similar needs of potential consumers. So, an example might be Scandinavian co
and Denmark being approached with the same strategy. Although local languag
common language is English and there are commonalities in weather patterns, c
domestic strategy is employed in that adaptations are made to local customs, bu
individual nation countries as in the polycentric approach it is targeting groups
advantage of existing trade structures and distribution channels between those
for example, could assume that marketing to England, Ireland, Wales and Scotla
approach, whereas a British company may make subtle alterations to its Scottish
intimate knowledge of the subtle regional differences within the United Kingdo

Price and Non-price Competition in Global Marketing

When marketing to emerging markets a business challenge is that of lower consu
developing markets. When firms first started to market to China and India, local i
in many Western countries. However, these were potentially huge markets who w
advances to 'catch up' with the rest of the world. China had a specific cultural and
few decades had operated on a protectionist basis, resisting the influx of Western
However, education standards in these countries was rapidly improving and local
develop in response to increased demand for goods and services, hitherto unavai

China, for example, signed up to the World Trade Organization in 2001 as much f
expediency. It could not grow without access to other world markets but the trad
access to China's market. Globalisation in this sense is a balance between the eme
labour and raw materials while at the same time expanding its own reach globally

However, when local markets become saturated, firms committed to growth will a
penetrate international markets. See extract below from the Organisation for Econ
Development (OECD).

> *The number of people living in high growth economies or in countries with per capi*
> *increased fourfold over the last 30 years – from 1 billion to 4 billion, according to th*
> *integration into world markets by six of the largest non-OECD economies (Brazil, Ru*
> *South Africa, together known as the BRIICS) was an important component of global*
> *decades. Economic incentives across world markets, and in the BRIICS in particular,*
> *with countries' and businesses' genuine strengths. Entrepreneurs gained from access*
> *their products and consumers gained from access to a wider variety of less expensiv*

Source: **http://www.oecd.or**

There are, however, issues with selling and marketing into these emerging market
these countries so local firms suffer. As these countries become more developed,
demanding of higher wages and the 'sweatshop' wage advantage of low labour c
some multinational companies has been to move manufacturing to other countri

This is not just economics but has a political and social impact. Price-sensitive pro
e.g. socks, will not be sold at higher prices. The Western consumer has become us
underwear; cheap 'disposable' clothing worn for one season then discarded. Cloth
strive to keep production costs down and the availability of cheap labour become
moves will then impact the workers in the original emerging market countries as t
sufficiently educated to gain new jobs in the developing technological industries.
Britain, print workers lost jobs with the digitisation of print, so in China manufactu
the country becomes more automated and less industrial.

However, growing wealth in the BRICS ec[illegible] mean that more expensive items
and the initial investment in developing supply chains and distribution channels h
companies who were willing to wait for these emerging markets to become profit

Price considerations need to take into account currency and exchange rate fluctua
an overseas market may be lower than in a domestic market, but is counterbalanc
materials and/or labour costs in that market. So, overseas market pricing is interd
calculation. Local competitors will also influence price decisions. So, McDonald's i
takeaway wrap-style product that was competing with locally made market-stall f
competitively low price to succeed. When launching a new product into an interna
consumer ignorance to overcome and so penetration pricing may be employed i
populations to try the unfamiliar.

Global branding

At its simplest level, a brand is an instantly recognisable name or even an image t
company. Geocentric companies are very brand-conscious as their products and s
regardless of country – so an example is the Nike 'swoosh' which gains massive b
recognition from international sporting events and appears not just in marketing
but on the Nike products themselves.

The strength of global branding is that it gives the company instant presence and a shorthand way of conveying company values. Where a company has to be careful is in understanding cultural differences where a certain image or word may be viewed in a totally different way from that intended or understood in the host country (see next section).

There is pressure on a company with global branding as a strategy to continually
consumer's eyes. Not surprisingly, technologically based organisations are among

Continual innovation, increased revenue from advertising, and growth in its cloud b
from Apple th[illegible] 1 [illegible] the **2016 BrandZTM Top 100 Most Valuable Glo**
today by W[illegible] Millward Brown. The brand increased its value 32% to $229bn, v
dropped to n[illegible] after declining –8% in value to $228bn. Microsoft remains at no.3,
Facebook (+44%, no.5) and Amazon (+59%, no.7) entered the Top 10 for the first ti
the Top 100 rose 3% year on year to hit $3.4 trillion.

The BrandZ data and analysis indicates that this was a stable year for the world's m
global financial pressures, including the economic slowdown in China. However, the
showcased their innovations to consumers through the brand experience, have achi
Amazon and Facebook acting as prime examples.

Source: **http://www.wpp.com/wpp/press/2016/jun/08/2016-brandz-top**

Questions: Responding to Global Demand (3.3.1)

1. Multi-domestic companies can be seen as those which decentralise much o
local needs and tailoring their products/services to reflect local specifics.

   Explain possible adaptations a British sweet manufacturer may need to con
China/India and America. Identify at least two adaptations to consider for e

2. Case study on Coca-Cola

   The concentrate for Coca-Cola's products is manufactured in the USA. All m
done from the USA. However, Coca-Cola is available around the world so h

   In each country, Coca-Cola negotiates with local bottlers and distribution c
concentrate, add water, add sweeteners/sugar, bottle and distribute the pro
glass is made to strict product specifications. Coca-Cola is a transnational c
Coca-Cola then copy and complete the table below.

How Coca-Cola benefits from this transnational model	How the overseas countries / bottling businesses benefit from this supply chain model	Why does Coca-C keep the concentr manufacture an marketing based the USA?

Demand-side Factors in Global Markets

Cultural Diversity
Diversity means different but without judgment on whether that difference is good or bad. A diverse culture is one with a blend of religions, practices, observances and histories.

In this section, we will look more closely at th
into consideration when approaching expans

Britain is a culturally diverse society and as su
well placed to understand cultural nuances an
may resist a Westernised approach to market
as rude, aggressive and even undermining th
company wishing to expand into internationa

For many of us, humour is a way to connect with others, but in business humour is a cultural minefield and is absolutely not culturally neutral. British comedy, for example, sometimes has a hard time succeeding in the United States; our self-deprecating form of ironic humour leaves many Americans baffled. The Germans, contrary to stereotype, do have a sense of humour but they believe there is a time and a place for it – and that is not in business meetings!

Dutchman Chris Smit, an experienced consultant and coach in intercultural business with a degree in Industrial and Organisational Psychology, argues that he has not yet found anything that is culturally neutral – all aspects of culture are sensitive so this poses a big problem for organisations wishing to expand internationally.

Learn More!
HSBC has a series of ad
informative regarding
https://www.youtube.c

There is an excellent T
and the importance of
inform how business s
https://www.youtube.c

Learn More!
Extended reading: an i
components of nationa
https://geert-hofstede.

Cultural differences need to be acknowledged and a common ground established
be successful. At a basic level, a firm wishing to use humour in advertising to mark
the cultural humour of the foreign country to avoid its advert being seen as unfun

Diversity in Tastes across International Markets

At a basic level, any food industry trying to break into international markets must
different cultures have different preferences in how food tastes. Some like more o
we in Britain would not even consider as food – chicken feet, for example, is a pop
China. In Britain, as a culturally diverse nation, we eat many international food dish
Chicken Tikka Masala, is not even an Indian dish. It was conceived by South East A
way to introduce us to Indian cooking adapted to suit our palates. Probably one o
marketing adaptations ever!

Tastes do change and consumers can be educated to adapt their eating habits, bu
foreign market it is best to remove as many barriers to entry as possible in adva
taste is their cultural values and preferences and these can cover a wide range of

Colours are [illegible] personal but they can also be culturally significant. Colour psych
colours create emotions and associations; thus, green is seen as environmentally f
and blue as cool and linked to cleanliness. Red means different things in different
a symbol of power, fire, and wealth. By contrast, in South Africa it is a colour of m
symbolises violence and struggle for independence. For the Chinese, red is a good
new year but also with funerals.

Colour is an integral part of many companies' branding, so using an inappropriate
could actually harm the perception of a brand.

Information and communication factors

Perhaps the most significant area of cultural diversity when conducting business i
communication. Traditions of politeness – when to speak, how to shake hands – a
but reflect important cultural perceptions as to the **right** way to do business.

Language is an obvious barrier to entry for some firms wishing to move into glob
widely regarded as an international business language it is still seen as arrogant w
speak the language of the foreign country with which they are trying to conduct b
language and a non-English-speaking native communicating in English may find t
as they do not know these nuances.

Business meetings in traditional Western countries comprise discussion culminati
Eastern cultures, saying yes may simply signify understanding of the discussion, n
be replaced by bowing and silences are not awkward but reflective while proposit

Personal space differs from country to country. While the British may have adopte
as the kiss on both cheeks they rarely use this form of greeting in a business cont
reserve will not translate well in a marketing approach in South American countrie
are necessary due to the weather and communication has a more casual feel to it.

To succeed in international markets a company has to communicate with local su
local customs and cultures and must not *impose their own cultural* values on othe
potential collaborators and consumers.

What's in a name?

Business needs to be careful about product names as supposedly neutral names ca
different countries. Chevrolet (and Vauxhall) have a car called the Nova which is po
However, sales of the car were terrible in Spanish-speaking countries. The reason? I
'Doesn't Go'... hmm, a car that doesn't work? Chevrolet changed the name to Carib

Here in the UK there used to be a product called Marathon, a chocolate and pean
confectionery company Mars. In 1990 they changed the name to Snickers, which
across the world, Snickers was the brand name and Mars decided to make the bra
dipped for a while but the colour scheme of the wrapper and look and taste of th
Marathon and gradually UK sales recovered.

Learn More!
For some more brand name differences across the world check this infographic:
zzed.co.uk/5869-brands-infographic

Language is not just about words but also about images. In the USA, scantily clad
used to promote just about any product from alcohol, to cars, to dating apps. In n
as highly offensive and such adverts and images would be banned. The US baby
serious mistake when trying to sell their products in Africa. The jar with an image
was completely misinterpreted by African consumers. In Africa, food packaging tr
jar or box. Removing the baby and showing peas and carrots would have been m

Targeting mass markets

Some companies are able to make very little differentiation to their products as th
then target mass markets without much shift in global approach. Examples could
T-shirts. This can apply to merchandising products where the appeal is the specifi
Wars merchandise, for example, is the same the world over – that is the point – it
specific and instantly recognisable. Creating a local version would immediately do

Where an item is very brand-specific and the consumer is buying it for its brandin
markets with no change. The appeal to a mass market is the universality of the pr
This allows companies producing these products to benefit enormously from eco
restriction when creating for mass markets is to ensure consistency of quality**.**

Questions: Demand-side Factors in Global Markets (3

1. Identify five areas of cultural difference you would research before launchin international market.
2. Identify and explain how the following British products/services could be se market. What are the characteristics of each of these products that distingu give an example from the marketing mix as to how they have positioned th
   - **a)** Harry Potter – yes, this is a product!

> Harry Potter started as scribbles in a notebook in a Scottish café whe trying to break into the children's book market. It has grown into a s eight films spanning a period of 10 years from 2001 to 2011. Spin-of followed. There is a huge merchandising operation alongside the Ha T-shirts, clothing, toys, and collectables. You can also visit Warner Bro Potter film experience at [illegible] The Wizarding World of Harry Potter resort, where [illegible] full replicas of Diagon Alley, Hogwarts and Ho [illegible] phenomenon and children and adults alike, all over the worl [illegible]s guises.

   - **b)** ASOS

> Back in the year 2000, not many people expected that a little-known would one day take over the world of fashion.
>
> Duplicating celebrity-inspired products, As Seen on Screen had only ambitions. Ten years later it has 2,000 members of staff, nine stand-a websites and six global offices.
>
> So how did this tiny start-up become the UK's leading fashion site?
>
> Asos tapped into a burgeoning trend for speedy online shopping jus off. By sidestepping the impending doom and gloom of the High Str reasonable prices, young fashionistas began flocking to the site for t
>
> Even more importantly, Asos makes it painless to return items – the f globally in the way that it has because it understands that punters w of shopping online, but they don't like to wait.
>
> There are no return fees, items arrive in as little as one working day a return unwanted goods. Asos also offers an online check for internat up any problems that could affect shipping.

Read more: **zzed.co.uk/5869-brit-start-ups**

   - **c)** MetaPack – e-commerce IT software for delivery management systems

> MetaPack is the leading provider of e-commerce delivery manageme enterprise retailers and brands. Its platform integrates 400 carriers ar such as Next Day, Click and Collect, Locker Boxes and International D retailers and brands to offer delivery options and convenience for t
>
> [illegible] every order, MetaPack is able to identify the most appr [illegible] particular customer, providing a seamless and personalised deliv removing manual and time-consuming processes in the retailer's wa
>
> MetaPack's delivery management platform enables retailers and bra strengthen their delivery proposition, generate customer loyalty and ensuring every customer has the best delivery experience.

Source: **http://www.me**

Impact of Globalisation on Local
Economies (3.4)

The Impact of Multinational Corporations (M

Local Impact of MNCs

Job Creation
MNCs investing in the local economy tend to produce employment opportunities
often operate at considerable scale and, thus, employment can increase dramatica
community. Moreover, the local labour force often receives the opportunity to wo
benefit from increases in long-term job stability and opportunities for professiona

Indeed, Ireland's experience suggests foreign direct investment by MNCs can incr
created more than 1[illegible] jobs in the Irish economy. The MNCs were companies s
Twitter, which suggests that MNCs not only create employment, but can also crea
host economy. Importantly, such an increase in employment engenders a 'multipl
refers to the phenomenon through which an *initial investment* causes a reaction t
MNCs can increase employment, which increases consumer expenditure and, in tu
in other sectors. Sometimes, though, MNCs eschew hiring the local population. Ch
into African economies in raw material extraction industries is commonly reportec
Chinese workers but leave African workers unemployed.

Wages
MNCs often pay higher wages than comparable local firms, ceteris paribus. Indeec
Hungary and Brazil seems to suggest that MNCs pay, on average, 4.6 to 6% highe
suggested that MNCs are able to do this because they operate more productively
make higher profits. Therefore, MNCs can afford to pay their workers a little more
workers are literally more valuable.

However, MNCs can also increase the wages in the local economy on aggregate.
labour in the local economy which drives up wage rates for all of the local popula
particularly high – that is, the labour market is *slack* – the effect of MNCs on local
if there is high competition for labour – e.g. in a *tight* labour market – then the inc
rates is likely to be profound.

An important caveat to this analysis is that MNCs often only bring low-skilled emp
e.g. an MNC such as Nike might introduce a manufacturing sector to an economy
roles remain at its headquarters in the United States. Accordingly, this employme
there is little room for career progress, so MNCs might [illegible] the local econo

Working Conditions
MNCs often operate their facilities with more favourable working environments fo
MNCs (usually) make higher profit margins, they are able to invest these profits int
operational [illegible], including modern technology that is less dangerous for staff
e.g. better staff canteens – that increase employee welfare. Moreover, because M
are very aware of their brand's perception and the negative business consequenc
Therefore, MNCs, by and large, tend to comply with important health and safety r
from workplace injury.

However, whether MNCs actually improve working conditions for their employees
MNCs are often criticised of abusing their monopsonist power when entering eco
developed countries. Apple, for instance, has been lambasted for its operations in
production process out to the Foxconn manufacturer. However, working conditio

plants are at odds with the conditions employees would expect in the West. Foxco monitored by abusive guards equipped with riot gear, workplace injury is frequen crisis – Foxconn has since installed anti-suicide netting on its buildings. Therefore improvements in working conditions largely depends on the institutional and regu operate, and this is immensely different between countries in the global North an

Local Businesses

The effect of MNCs on local businesses is twofold. From one perspective, MNCs ca businesses in the local economy. This is because such firms are unable to compete greater levels of efficiency – e.g. because of *economies of scale* or specialist expert advertise their presence in the local community because of the wealth of funds th local businesses that find that they have little competitive edge in the local econo market – this has a negative effect on local unemployment.

Anecdotally, it is clear that MNCs usually have negative effects on businesses ope Supermarket chains, such as Asda and Tesco, have largely eradicated specialist foo greengrocers, and butchers from the local high street. Moreover, because MNCs c workers higher wages, local businesses might find that their employees are entice MNCs. Local businesses are further affected when they find that the pool of poten has decreased because MNCs have hired most of the available labour force. Howe these effects might be beneficial in the long run for the local economy if it forces efficiency in order to remain competitive, or if local businesses begin to offer high

The presence of MNCs isn't all doom and gloom for local businesses. Indeed, MN businesses operating vertically to the firm – this is referred to as *vertical affiliation* initially might *boost* employment in the local economy if they need local businesse the infrastructure surrounding it. Moreover, MNCs might depend in local business materials and other inputs for their production process, or, instead, to distribute t consumers. However, whether MNCs use local suppliers or distribution networks f questionable. Part of the success of MNCs is that they supply *consistent* products. suppliers at each of its branches its product would vary by region. It seems more l in a community while relying on established suppliers. Yet McDonald's, the fast-fo UK and Irish farmers – 16,000 in fact – to supply its beef to its 1,200 UK branches. MNCs having positive effects on the local economy through vertical affiliation.

Community

MNCs are highly concerned with their brand image and so often invest into the lo

MNCs, for example, might fund an area's youth sports teams or give a portion of Sainsbury's, the UK supermarket chain, is committed to 'making a positive differen so by assisting community groups and charities in effecting positive change in the from investing in its community because it can bolster its reputation as a responsi differentiate the business and put it ahead of other firms operating in its sector. It the specific needs of their community. This insight can then be used by the firm to customers with the particular products that they prefer.

MNCs can also contribute to the local economy in improving the pre-existing infr completely from scratch. MNCs, for example, might invest in better transport netw this investment [illegible], because it reduces traffic congestion. Local authorities benef zero cost to their budgets. Ultimately, though, it is the MNCs that benefit the mos distribute their products more easily than before. Investments in infrastructure are could include investments in better sewage systems, local schools, and a whole ho Finally, unless they are tax avoiding or evading, MNCs have to pay taxes to local a the local community because the local government has increased resources which improving investments. MNCs' contribution to taxes might have especially pronou economies where the budgets of local authorities are often constrained – althoug economy might make it easy for corrupt government officials to pilfer these funds

However, MNCs are often criticised for the homogenising effect they have on com economy might be eroded as MNCs come to replace local businesses over time. I to strip communities of their vibrancy and make individuals in such communities r local economy might be more negative than originally thought. Community is at t by eroding community and interaction, MNCs might introduce inefficiencies into t

Environment

MNCs' effect on the environment is strikingly one-sided. While MNCs do try to lin production is often undertaken unsustainably, and at cost to the local community Mexico was the largest marine oil spill in the history of the petroleum industry. BP billion in damages for the accidental spill, but its effects are still being felt by fishe Interestingly, a 2010 report found that the top 3,000 businesses (not all MNCs, bu $2.2 trillion of environmental damage. If they internalised this cost their profit ma MNCs improve the environment that they operate in, and if they do, it is rarely the is local governments that force these changes.

National Impact of MNCs

FDI Flows

If a MNC is to establish itself in a foreign market it is natural that some investmen made – this is known as foreign direct investment, or FDI. FDI might involve an M assets, or direct spending on establishing a facility in the host economy. FDI is usu their citizens.

- **Infrastructure:** FDI can boost infrastructure creation in the national econ can positively affect the local economy by improving pre-existing infrastru national economy – e.g. through attractive corporate rates of taxation, or Economic Zone' – can accelerate infrastructure spending.
- **Capital Deepening:** FDI can bring about 'capital deepening' in the host e investment in innovative technology. Deepening refers to the situation th increased. It is an important condition in economic development, and sho the productive potential of an economy.
- **Training:** FDI need not be limited to physical capital goods. Indeed, MNC capital' – that is, skills and knowledge, etc. Therefore, FDI can increase the through training and education.
- **Employment:** FDI likely increases employment directly through hiring of indirectly increases employment by creating linkages throughout the eco suppliers and distributers. Coca-Cola, for instance, might set up a factory employment directly at its own factory, but also through jobs for delivery economy.
- **Income:** Since FDI constitutes an injection into the domestic economy it s GDP. Short-run economic growth should be achieved by increases in FDI

However, while FDI is clearly beneficial in these respects for the national economy on the fact that most issues are multifaceted. FDI, for instance, could be viewed ne perspective if it creates inequality. Likewise, attracting MNCs to the national eco relationship that plunders the host economy for cheap labour and other raw mate are limited linkages created between the MNC and domestic industries and so the might be limited.

Balance of Payments

The Balance of Payments (BoP) is a record of transactions between the domestic econ a given time period. It is comprised of the 'current' and 'capital' accounts. MNCs are s

First, FDI conducted by MNCs has an effect on the 'capital' account, which broadly FDI can be considered as financial injections from a foreign MNC into the national that the current account should be boosted by MNCs entering the national econo factory for its Purina brand of pet food in Brazil – this investment cost CHF (Swiss million, which is a huge injection into the Brazilian economy.

MNCs also tend to trade on international markets. Therefore, if an MNC exports it 'current' account should improve as exports exceed imports. Continuing the Nestl Nestlé intends to sell all of its Purina output in Brazilian markets, and so any prod the current account as currency floods into the Brazilian economy. However, it is i effect can go either way. Many MNCs might import raw materials and other resou utilise during the production process; anything that is *imported* constitutes a leak these imports outweigh exports then the BoP is actually worsened by the presenc noting that many MNCs engage in the questionable process of repatriating their which, again, worsens the BoP.)

Technology and Skills Transfer

MNCs are highly important drivers of technological transfer. Indeed, when an MN brings with it the expertise and innovative technology that has made it such an in Bank, for instance, found that in 2002, around 700 MNCs accounted for a whoppi and development. Therefore, it is clear that any economy that is host to an MNC s investments in knowledge. Emerging economies particularly benefit from this tran savings are usually too meagre to significantly invest in capital deepening. MNCs required to improve efficiency and productive capacity in the host economy and, growth. Indirectly, productivity might also increase if the presence of MNCs forces production to make themselves more competitive, both nationally and internation transfer can be *horizontal* or *vertical*.

Moreover, MNCs can have indirect effects on domestic producers. Primarily, there whereby knowledge created by an MNC is used by domestic firms without compe businesses might learn about marketing and management strategy through obser or they might benefit by hiring skilled workers trained by the MNC.

However, this knowledge spillover could be more insidious when national firms o engineering' the products of MNCs. Reverse engineering is a process through whi product, and then this extracted knowledge is put in place in the development of Reverse engineering is a particular problem in China, where domestic businesses MNCs. In fact, the process of backward engineering technology and the lack of pr one of the biggest hindrances it has to future FDI.

Consumers

Consumers also stand to benefit from the presence of MNCs on a national scale:

- **Choice:** Primarily, since MNCs are naturally the producers of some good choice into the host economy. Native consumers are, thus, able to choose domestic corporations or MNCs – e.g. Vietnamese people can choose bet authentic Vietnamese weasel dung coffee, or a Starbuck's pumpkin spice predatory price until competition has largely left the domestic economy a choice will in actuality be reduced.

- **Price:** MNCs, because of their efficient scale and innovative technology ar undercut domestic producers on price. Consumers in the host economy t prices in the presence of MNCs. Note, also, that competition from MNCs down generally, and so it is not only the MNC's product that is cheaper, b an MNC creates a monopoly, prices could in fact be *higher* than before!

- **Quality:** MNCs might be able to produce better-quality products than the most likely the result of their better technologies and working practices, b international competitive pressure. Consumers, therefore, benefit from ac aesthetically pleasing products than before. Importantly, though, MNCs a goods that have built-in obsolescence or are just cheap mass-manufactur that the products on offer will *actually* be better quality.

Business Culture

MNCs have the ability to completely revitalise business culture in the host econom in human capital and knowledge generation, previous employees are able to leave with similar cultures to the MNC. It is likely that over time this will affect the overal MNCs also change business culture through imitation. Firms in the national econo changes in business operation or find themselves uncompetitive in an economy shake Finally, the presence of MNCs might inspire individuals in the host economy to be could create an entrepreneurial culture and pro-business in economies that are host

Tax Revenues

MNCs also [illegible] copious fiscal benefits for the national economy. Indeed, since even a *small* [illegible]rate tax rate can bring in vast sums for the host economy's gov turn, spend these resources on a host of potential investments – e.g. on education

However, it is definitely not unheard of for large MNCs to avoid paying as much t retailer, for instance, was found to be avoiding tax in 2015 – paying only £11.9 mil in the UK. It has since been shamed into paying more tax in several European eco company to avoid paying tax; it is practised by such a large number of MNCs that evasion epidemic.

Transfer pricing is one way in which MNCs can avoid paying fair amounts of tax. E the subsidiary of the MNC selling its product to another at an artificially low price. in the United Arab Emirates, which has a corporate tax rate of 55%. The MNC is g much profit in this country because its profit will be taxed at this incredibly high ra its output produced in the UAE to another subsidiary of the MNC based somewhe low. This subsidiary of the MNC is then free to charge the correct price for the pro of it across the world without worrying about large portions of profit being erode maximising, and this condition gives way to morally reprehensible behaviour, such MNCs will continue to act this way until they are held accountable for their action the journey will be long and arduous.

Ethical Issues

What are Ethics?

Ethics refers to the moral principles that affect a person's behaviour. It is essential and 'wrong' in terms of conduct. Ethics from a business perspective is concerned conduct in the business environment.

Example: In the 1970s, Ford Motor Co. produced the Pinto. The Pinto was exposed the event of a rear-end collision. Ford's internal memos indicate that the company chose not to install a simple $11 protective measure. Indeed, a small modification deflected contact in the occurrence of an accident and, thus, would have made th sound for its passengers – in fact, Ford estimated that this would save roughly 18 conducted a cost–benefit analysis and calculated that it would be more cost-effec against the company in the event of a rear-end collision, and so the Pinto was put

Ultimately, The Ford Pinto case is an example of the conflict between profit-maxin standards of safety. However, the business environment has changed considerab ethically is now an important issue for many MNCs – as indicated by the rise of co business approach.

Stakeholder Conflicts

Stakeholders are agents that are affected by a business's actions. An MNC's beha stakeholders, including consumers, employees, shareholders, and governments. I of interest between these stakeholders and the resolution, or balancing, of these an MNC is to be viewed favourably.

- **Consumers –** Consumers are first and foremost concerned with the price manipulate prices (especially if there is little competition) to the detrimen bargain. Consumers are also interested in purchasing quality products – The Ford Pinto example mentioned above represents the conflict of inter profit-maximising objective. Finally, consumers are concerned about pur but a great deal of marketing is conducted through deliberate misleadin

- **Employees –** An employee's biggest concern is likely to be their salary. Y interest between the MNC and the employee because the firm treats lab and so looks to reduce costs at any available opportunity. Second, emplo of no interest to an MNC that will seek to reduce cost, and, therefore, em downturn. Finally, MNCs will do little to ensure that working conditions a required, but it's quite clear that employees would relish improvements t and beyond regulatory requirements.

- **Shareholders –** A shareholder's biggest concern is profit maximisation be them through larger dividends. However, there is often a conflict of intere shareholders and management – this is commonly referred to as the *prin* through the divorce of ownership of MNCs. While an MNC might look to little interest to shareholders who only consider their short-term gain. M their profits to produce long-term growth – again, shareholders as stakeh because this reduces their short-term financial returns.

- **Governments –** Governments are by and large concerned with the well-b are welcomed because they bring FDI flows and increases in employment competition or culture, which the government will aim to limit. Moreover, interested in the long-term sustainability of the economy, which is at odd associated with the arrival of MNCs.

Pay and Working Conditions

Ethically, an MNC's biggest consideration is likely to be the treatment of labour ac chain. While workers in Western economies have fought zealously since their resp basic protections against malevolent or negligent employers, those in LEDCs ofter protections. Nearly every European country, for instance, has in place a national m exceptions for Switzerland and the Scandinavian states – but the same is often no economies.

Figure 1: National Minimum Wages in Selected Asian E

Country	Monthly Minimum Wage (Domestic Currency)	Mo
Bangladesh	150[illegible]	
Cambodia	[illegible] KHR	
Indonesia	2,000,000 IDR	
India	4350 INR	
Singapore	N/A	
South Korea	1128980 KRW	
Taiwan	21,009 TWD	
Thailand	8083 THB	
Vietnam	2501950 VND	

Globalisation has led to many MNCs outsourcing parts of their production proces MNC that produces labour-intensive manufactures such as clothing, or other texti profit-maximising business perspective that such an MNC would enter, say, Bangl that the firm is legally required to pay is $19 a month. It is said that MNCs particip bottom', whereby they increasingly seek business opportunities in countries that a minimum wages. Moreover, because of their international mobility and intense co investment by MNCs, this practice is set to continue; MNCs benefit from cheap lab pretty much the *expectation* in a globalised economy that MNCs operate in this m probable that the clothes you are wearing as you read this chapter have been pro economically far more destitute than the United Kingdom. However, since the 19 criticised by the anti-globalisation movement for such practices. Yet, while the wa countries are particularly low by Western standards, they often represent a major options that people in LEDCs would otherwise have – e.g. agricultural employmen considered better off than before, having moved from a position of intense pover living. Opponents, though, would argue that they have merely swapped one set o Ultimately, MNCs must manage their interests between making cost savings throu in a manner that is deemed 'fair' by consumers – e.g. corporate social responsibili

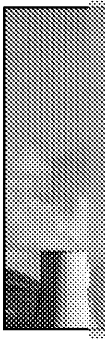
Now, although some countries might have legislated for a national minimum wag countries could still be substandard. In 2013, for instance, a garment-factory accid Bangladesh, that is said to be the deadliest in contemporary history – its death tol accident occurred because of structural failures, including the building of additiona and the use of inadequate construction materials. Yet, this sort of occurrence is ur economy such as the United Kingdom because there is a plethora of protective le by governments. MNCs are accused of creating literal sweatshops upon entering fo LEDCs where institutional infrastructure to protect workers is poor. MNCs are LEDCs by expecting them to work in conditions that are grossly disparate to the c they apply different standards to desperate workers in LEDCs to the ones they ap this practice has been widely criticised by the anti-globalisation movement. An int Kathie Lee Gifford, a celebrity activist who worked with Wal-Mart and endorsed pr suppress abuse of manufacturing workers in LEDCs. *Kathie's products were later fo working environments in Honduras.*

Environment

MNCs are also critiqued on ethical grounds for their effect on the environment. It
significant interest in contemporary society as economies move rapidly towards p
environmental damage – e.g. the breaching of the world's CO_2 (carbon dioxide) th
balance their objective to profit-maximise, and, thus, contribute to environmental
that they will receive from environmentally concerned consumers and the financia
imposed on them by domestic governments. Another concern might be that envi
their long-term growth objectives if the MNC's operations depend on the natural

MNCs' effects on the environment can be broken down into two categories: *emiss*

- **Emissions:** It should come of little surprise that production leads to the e
seeking to reduce costs along all parts of the production process, are unli
their effects on the environment unless they are legally compelled to do s
process of climate change [illegible] the emissions they produce – say, dist
international shipping networks – or directly during production in their m
far the most common pollutant and one of the biggest accelerators of cli
(which contributes to *acid rain*) and nitrogen oxides (which produces the
cities) are other notable emissions. Now, there is often *strict* legislation in
unfavourable levels of *pollution* – e.g. the Environmental Protection Act 1990. But in LEDCs such regulation is by and large missing from public legislature. MNCs, therefore, are able to situate their production in such countries and can freely pollute without considering the effects they have on the environment and people who depend on it. India, for instance, is home to the most polluted city on earth, Delhi, but Indian officials are unlikely to pick better environmental outcomes over the increases in employment that MNCs bring. Yet, emissions are a serious issue – throughout the world, around 3.3 million people are killed by air pollution each year.



- **Waste Disposal:** MNCs also contribute to environmental damage throug
disposal. LEDCs, unlike their Western counterparts, are lagging behind in
legislation that would prevent MNCs from damaging the environment thr
UK, for instance, there are disposal plants that can efficiently convert wast
measures that prevent firms from disposing of their waste in a damaging
LEDCs freely dispose of their waste without considering environmental im
illegally *export* their waste to LEDCs because it is simply more cost-effecti
said to be becoming the world's rubbish dump. Landfills in Kolkata are pe
electronic waste containing toxic elements, and are scoured by destitute,
of financial worth. Another example is China's dumping of nuclear waste i
of Africa – this practice has turned once-responsible Somali fishermen int

Supply Chain Considerations

MNCs operating in the international economy are likely to have their production
different countries. However, this affects the complexity of their supply chain, mak
and address areas of ethical concern.

- **Exploitation of Labour:** Exploitation occurs when there is an *asymmetric*
actors, and this asymmetry is then abused by the powerful actor for their
excessive labour hours, a dangerous working environment, harassment an
and coercion.

  MNCs quite clearly have the power in the relationship between employer
home to such power dynamics and MNCs are accused of producing, or at
contemporary slavery. *'Bonded labour,'* or debt bondage, is a form of cont
bonded labour refers to the cycle through which individuals are coerced i
off loans that are specifically designed to be almost impossible to be repa
prevalent in South Asia – the ILO estimates that more than 11.7 millio
are likely to be contemporary slaves through the mechanism of debt bon
abusive behaviour into this inescapable life.

  However, even if an MNC isn't benefiting from this particular type of cont
acting in an exploitative way. It has been suggested earlier that MNCs off
forms of employment in LEDCs, and individuals *freely* choose to work for
compulsion. Yet, is this choice truly free? If an individual's only choice is b
an MNC in a workplace that is deemed unfit by Western standards, MNCs
exploitatively by abusing their power.

- **Child Labour:** MNCs are also complicit in the exploitation of children thro
LEDCs often send their children to work instead of to school for financial r
gained from education – e.g. because of a lack employment opportunities
sense for households to prioritise labour over education for their children
child labour is illegal, it is not so often outlawed in LEDCs. MNCs (usually)
but because of the traditions, cultures, and economic situation of the cou
often indirectly benefit from the exploitation of children.

  Child labour is considered to be another form of contemporary slavery. It
200 million children in employment today, of which a staggering 73 millio
important to remember that this practice was once normal in Western eco
industrialisation, and that LEDCs are following a similar pattern of develop
West to consider this practice unethical while we enjoy the fruits of simila
efforts to prevent child labour in LEDCs might produce unintended conse
damage the financial situation of families that depend on child labour for
force such families into a life of poverty? Also, stopping child labour in leg
children into labour in the black market – e.g. in Bangladesh, legislation th
manufacturing sector forced thousands of young girls into a life of prostit
considering that there are sometimes few formal education institutions as
not certain that halting child labour will produced better outcomes fo

  Whilst MNCs aren't always directly involved in employing children, they st
change and prevent it occurring. Samsung, for instance, has a 'zero-tolera
completely avoids factories that are known for such abusive behaviour.

Marketing Considerations

- **Misleading Product Labelling:** Ethically, MNCs must also consider wheth product in a misleading way. In the UK, government-imposed trading star Descriptions Act – make it illegal for businesses to falsely advertise their p one's product is included in these marketing standards. Naturally, it seem misled when making purchasing decisions. However, following the establi United Kingdom, or other Western economies, is not necessarily true acro little international regulation on marketing standards. Therefore, MNCs m national standards. Yet, even when there are national standards in terms o remarkably easy for MNCs to be truthful *yet* misleading – e.g. an MNC lab 99% better than the 'next best' alternative implies superiority, and can eas being the *best*, but this information means nothing if the 'next best' altern on the market...

  How, then, should MNCs operate in the absence of marketing regulations? Is deliberately misinform consumers in international markets about, say, the in their products, its durability, and what consumers can expect to gain fro regulations, there is little incentive for MNCs to be truthful when it comes t most commentators would view this behaviour as unethical, it is simply g

- **Inappropriate Promotional Activities:** MNCs also receive scrutiny for in most commonly if they are offensive or outright illegal. In 2016, for instar advert received international scrutiny because it included blatantly racist r respectful of the culture of countries in which they operate, not only for m because they might risk offending market segments which could otherwis

  'Bribing' is a form of corrupt marketing activity that is generally outlawed in China engage in the practice of 'gift-giving' in a business environment social connection. MNCs, therefore, need to consider the cultural context perfectly legal for Chinese business executives to offer thinly veiled bribes in the UK could land them in trouble for *illegal* marketing activities.

Controlling MNCs

Although the operation of MNCs can produce real benefits to the host economy, autonomy of MNCs is also likely to produce negative outcomes as discussed in th imperative that MNCs are controlled in some form or another.

However, since MNCs operate on an international stage, the issue of control is co for instance, might feel it necessary to control the behaviour of Asian automobile the UK for the good of its citizens. Yet, Nissan has no commitment to remain in th environment is unfavourable, it can simply leave – taking the benefits of FDI, emp bolster the government's coffers with it. Alternatively, Nissan could exert its powe for its own benefit. Therefore, there is a certain set of political, legal, and social inf imposed in order to guarantee that an MNC produces the greatest possible bene minimum cost.

Political Influence

Political influence is one means to control the operation of an MNC. An obvious m make the MNC a state-owned enterprise (SOE). Creation of an SOE is the most dir have on a business enterprise, since it is the government that directly manages th **12 largest companies, for instance, are all state-owned – including financial i that operate on the international stage.**

However, while SOEs are effective in terms of engendering direct control, there ar

- Firstly, SOEs might be wrought with corruption. Indeed, SOEs are a useful officials to embezzle funds or can be captured to serve their private speci opaque in their operation and thus tend to avoid scrutiny from the gener China, for instance, might involve extortion and other abuses of power. In business executives were detained on suspicion of corruption as part of C corruption campaign.
- Another issue related to the use of SOEs is that government expenditure expenditure. Funding for SOEs is naturally controlled by the government available for private enterprise. Moreover, this funding might keep SOEs market competition, creating productive inefficiencies in the economy.
- Finally, because SOEs are generally not profit-maximising, there is less nee innovative technologies or R&D. Innovation makes the economy more pr consumers in terms of offering better products.

Yet, even if the government doesn't take direct control of a MNC it can still affect tools. MNCs can be limited in their operation through the implementation of inte government can use tariffs, quotas, local content requirements and other non-tar from competition by MNCs. States can alternatively offer financial assistance to d grants, low-interest loans, tax relief, etc. that can strengthen them against comp are often able to lobby politicians and effectively become the 'puppet-masters' of political sys[illegible] a useful tool in the control of MNCs is, therefore, questionable prevalent in the United States where business interests extensively lobby for their

Legal Control

Governments are also able to exert influence on MNC behaviour by employing th
Governments have a paternalistic function and have an imperative to control the a
legislation, regulation and taxation. MNCs tend to favour countries with little regu
with a legal environment similar to the country of their headquarters.

Environmental regulation, for instance, could prevent MNCs from creating negativ
national economy. Moreover, governments in LEDCs could impose legislation, suc
regulate firms' work environments, and create constitutional workers' rights that c
cheap labour by MNCs. However, an important counterargument to this is that th
LEDCs that are looking to attract FDI by MNCs. MNCs will, instead, seek other cou
invest in. It is important that governments balance these considerations when dec

Another important legislative tool is that of 'competition policy'. Governments wis
monopolistic behaviour can enact competition policy in order to ensure the efficie
markets. In the UK there is the Competition and Markets Authority that, among ot
acquisitions of business to ensure that that there is always a sufficient level of co
protecting consumers from unfair business practices and predatory prices. Yet, ev
legal environment to protect consumers from competition, this doesn't necessaril
need for effective enforcement if a government's policies are to take hold.

Finally, governments can use fiscal tools to affect MNC behaviour. Europe has the
across the world – about 19%. It, therefore, should attract more business investme
which is said to have the third highest corporate tax rate. (Note, however, that a c
also an important consideration for businesses looking to invest – so not everythi
rates.) Many MNCs *avoid* tax – using crafty, legal accounting methods to reduce t
also *evade* tax – which means using illegal methods to reduce their tax bill. Gover
loopholes in their systems of taxation to limit this deplorable behaviour by MNCs.

Pressure Groups

Additionally, consumers themselves can be powerful influencers of MNC behavio
ultimately, sold to consumers, they are often at the whims of shifts in consumer a
When an MNC's behaviour is actually lawful in a given institutional framework but
reprehensible, 'pressure groups' can use numerous methods to effect changes the
broadly refers to collections of individuals or voluntary organisations that campai
influence corporate or political decisions.

Pressure groups in the UK include organisations such as *Greenpeace*, the environm
Corporate Watch, which investigates the impact of commercial behaviour, *Stonew*
Fawcett Society, which campaign's for women's rights. Yet there are also pressure
support of certain industrial interests – e.g. the British Bankers' Association, which
in legislation regarding banking in the UK.

- **Naming and Shaming:** MNCs that are behaving unethically are 'named a
  Campaigners publicise factual criticism of the MNC's behaviour – ofte
  circulated and so can damage an MNC's reputation extensively. In the 19
  campaigned furiously against Nike. Nike's manufacturing process was co
  were found to be using child labour to produce their products. Pressure g
  of a Pakistani child stitching a Nike football and the image gained conside
  Nike's then CEO, Phil Knight, acknowledged this shift in consumer percep
  Nike's ways.
- **Direct Action:** Pressure groups are also able to take 'direct action'. These
  protests, strike action or disruptive behaviours that make it difficult for an
  instance, anti-globalisation pressure groups protested outside a Seattle c
  Organization, disrupting negotiations, and bringing anti-globalisation to t

Another example of direct action is the concept of 'tree sitting' whereby e themselves to trees in order to disrupt logging or other commercial intere headlines after activists spent 51 days tree-sitting 65 metres up in a giant current record for the tallest tree-sit.

- **Lobbying:** Pressure groups can also achieve their objectives through lobb through which pressure groups attempt to influence policymaking official legislation or regulation. Lobbying in Washington DC has become a majo National Rifle Association spent $3,360,000 in what are effectively legal br regulation of firearms.

Social Media

Finally, a more modern bracing effect on the behaviour of MNCs is the rise of soci computer-based technology that facilitates the sharing of information between in YouTube are examples of social media websites. Although such websites serve as also have associated risks. Individuals can more easily communicate and share ide advent of such technology, and this is particularly worrisome for MNCs that engage in information is effortlessly accessible on the Internet and individuals can educate t easily through websites such as Wikipedia.

Often criticisms of MNCs go 'viral' – this refers to the rapid reproduction and shar information. Viral criticism has the ability to rally activists and concerned stakehol exerting pressure on MNCs to change. It also alerts governments as to which issue However, there is a danger that viral information can be misinformed at best, but – such information could damage an MNC's reputation even if it isn't true.

Learn More!
Can you think of a recent examples of viral campaigns on social media, e.g. Face How do you think MNCs would respond to this?

Questions: Impact of Globalisation on Local and Nationa

1. Why are MNCs important for national economies?
2. What is an example of a horizontal technology transfer? What about a vertica
3. Do you think it's misleading to compare relative wages between countries?
4. How can businesses show that they are operating fairly and responsibly in LE
5. Read the following case study:

> Monsanto is an American multinational agrochemical corporation. It produc
> seeds, pesticides, herbicides and other crop protection chemicals. It is a com
> controversy. Monsanto is said to have produced the 'seeds of suicide' in Ind
> World Bank imposed the 1998 Seed Policy on India which required deregul
> market and promoted licensing arrangements between Monsanto and India
> moved into the Indian market and patented cotton seeds making what was
> among farmers the 'intellectual property' of the corporation. Indian farmers
> to Monsanto, which raised the price of cotton seeds and farming. Moreover
> non-renewable, or sterile, meaning that farms couldn't cultivate them using
> effect, they needed to continually purchase Monsanto's seeds. Finally, the c
> rise to super-pests and super-weeds which decimated farmers' other crops.
> Monsanto was able to effectively establish dominance of the Indian seed ma
> on the cotton seed market tightened, there was a spate of suicides among I
> because of increasing indebtedness to the firm.

   Identify an ethical concern. How could an MNC mitigate this?

6. Assess one advantage and one disadvantage of political control of MNCs.
7. How might the agenda of a pressure group such as Greenpeace affect busine
8. What methods do pressure groups have available to them in order to control

Global Labour Markets (

Employment Patterns

The growing global labour force

There are several important features of the global labour market in the past few d
Firstly, the sheer number of working people has increased substantially, from arou
2.9 billion in 2010. This is predicted to increase to 3.5 billion by 2030.

Part of this increase can be explained by population growth. There are about 3 bil
today than there were in 1980. This isn't the only factor, though. The rapid growth
India increased the global labour supply, and the growing participation of women
world is another factor. In fact, China's economic growth has been the single grea
of poverty over the last [illegible] decades – far more effective than any Western aid pro

Another important trend is that the share of total income going to labour has falle
to calculations from the OECD (Organisation for Economic Co-operation and Deve
went to labour in the 2000s, falling from 66% in the 1990s. More of the total share
improvements in technology have allowed machines to replace workers in many o
machines in shops). This has implications for inequality, and is linked to the struct

Structural change

It's not just the number of workers that has been changing: the type of work they
time. Workers in developing countries have been moving out of agriculture in dro
factory-based work. This has allowed these economies (particularly Asian econom
export to developed countries, potentially displacing low-skilled workers in develo
industry is a good example of this: British steel workers cannot compete with the l
likes of China and Taiwan). Much of the growth and development of these emergi
booming international trade.

For developed economies, the structure of labour markets is also changing. As de
manipulate and develop new technologies) increases, the relative wages of low-sk
contributed to growing inequality and discontent among unskilled workers who fe
them behind (Brexit and the rise of US President Trump can be partly explained by
reason why so many more young people in the West now go to university in an at
the UK, the proportion of people going to university has more than doubled over
20% in 1990 to 46% in 2014).

Despite the rise in university attendance, youth inequality in the West remains a b
generation' in countries such as Spain and Italy in particular. This is especially con
ageing in the West, which [illegible] even more important to have a productive lab
global scale, by 202[illegible] expected that there will be a shortage of high-skilled wo
uneducated workers.

Overall it is quite a mixed picture; there are plenty of challenges ahead for society
productively employed and that the distribution of income is equitable.

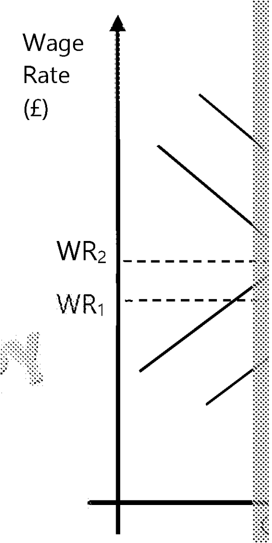
The interdependence of labour markets

The growing trend of globalisation has meant that global labour markets have be interdependent. Now, the wages of a worker in China or India have an impact on t for workers in developed countries. It has become easier for firms to move to low investment), so there has been a tendency for the wage gap between developed a narrow. It has also become easier to transport goods around the world, so if two i in different countries, then consumers will choose the one that is cheaper.

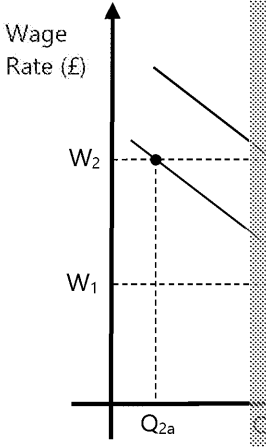
There is still a long way to go before the gap in wages is completely closed, althou some degree of 'catch-up' of the wages of workers in developing countries over t

All this had led to an interesting pattern for inequality: inequality on a global scale countries are becoming richer. However, inequality within individual countries ten bottom end of the scale in developed countries fall behind, and some people in d

Wage Rates



The wage rate is determined by the labour market forces of supply and demand. If a factor of demand decreases then the demand curve would shift in and the wage rate would decrease. If there was an economic boom then consumers would have more income and demand more goods. Firms would attempt to increase production in order to meet this increase in demand. The labour market would see an increase in the demand for labour and the demand curve would shift out from D_{L1} to D_{L2}, the quantity of labour in the market would increase from Q_1 to Q_2 and the wage rate would increase from WR_1 to WR_2.



If there was an increase in the determinant factors of the supply of labour, then the supply curve would shift out and the wage rate would decrease. If the government increased the school leaving age to 18 (i.e. A Levels became compulsory), then the size of the working population would fall and so would the supply of labour. The supply curve would shift inwards from S_{L1} to S_{L2}, causing the quantity of labour available to fall from Q_1 to Q_{2S} and the wage rate to increase from WR_1 to WR_2.

So what are the factors that affect the demand and supply of labour...?

Factors that Influence Demand for Labour (DL)

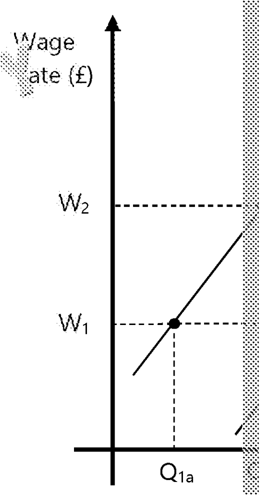
- **Wage Rate**
  Wage is the price of labour and as the law of demand states, as price increases, demand falls, so, as the wage rate increases, the demand for labour falls. As the price of something increases, consumers are likely to swap to consuming a substitute good. This is known as the substitution effect. Capital and labour production; therefore, as the wage rate increases, firms are likely to swap to u explains that as people's incomes rise they are likely to increase their demand they make. If the wage rate goes up, then their profits fall (their incomes fall)
- **Demand for Goods (Derived Demand)**
  If the demand for a good goes up, then the producers of that good will seek to increase production they will need more labour and so the demand for lab means that the demand for labour, just like the demand for a good, is influen incomes and the conditions of the economy (booms and recessions).
- **Productivity of Labour**
  If workers become more productive, then they will produce more goods. This output without increasing costs, [illegible] their workforce will produce more w purchase more labour. Therefore, if productivity increases, firms are likely to is determined by skill levels, training, education and general human capital.
- **Profitability of Firms**
  If a firm is more profitable, it is able to expand production and purchase more profitable the firm is, the more labour it will demand. This is why, in an upturn is likely to increase because firms are more able to purchase labour. In a dow for labour falls as firms cannot afford to expand and may even need to down
- **Substitutes**
  Labour and capital are substitutes when it comes to production. Therefore, th depend on the price of labour, but also the price of its substitutes. If the price likely to demand capital over labour and, therefore, the demand for labour w then firms will switch to using labour and the demand for labour will rise.

Supply of Labour

Factors that Influence Supply for Labour (DL)

- **Wage Rate**
  The wage rate also affects the supply of labour. From a supply point of view, willingness and incentive to work. At higher wage rates, more workers are lik supply of labour will be higher. At lower levels of wage rate, workers will be le labour will be supplied. This is especially noticeable if benefits for unemploym

- **Size of Working Population (number of workers)**
  The size of the working population depends on school-leaving age and retirement age. If more people are able to work, this will mean there is a greater supply of labour. If the retirement age falls and the school-leaving age increases, then there will be fewer people of working age and so the supply of labour will fall.



- **Migration**
  If people of working age migrate then this will affect the supply of labour. If people who are unable to work or are not of working age migrate then this will have no effect on the supply of labour. If people immigrate (come into the country) then there will be a greater working population and the supply of labour will increase. If people emigrate (leave for another country) then the supply of labour will fall because there are fewer workers available in the country.

- **Willingness to Work (Preference for Work)**
  Labour and leisure are substitutes because time is fixed and people can choo people would prefer to work because of the additional benefits of work (e.g. labour will increase. If people are less willing to work then the supply of labou work can be increased through wage rises but also by reducing the cost of w have children, they will need to pay for childcare while they work; this is a cos of childcare, it will be more affordable and more people will be able to work, labour. Willingness can also be increase through non-monetary factors, such conditions are low, people will be less willing to go to work.

- **Barriers to Entry**
  There are many barriers to entry such as the qualification requirements, legal work visa) and length of training. These factors can prevent someone from en therefore, affect the supply of labour. This can be occupation-specific or natio permit or visa in order to work in certain countries, regardless of the occupat before becoming a doctor or architect. If there are more barriers to the labou join and so the supply of labour will fall. If there are no to low barriers to entr people will be able to join and, therefore, the supply of labour will be greater

- **Trade Unions**
  Trade unions can affect the supply of labour in a variety of ways. Firstly, they market because there are incentives of being a member, such as offering pro working conditions and wage rates. This would increase the supply of labour. organise strikes and reduced hours. This will reduce the supply of labour in th affect the elasticity of supply of labour. Because trade unions present a collec union members will have more control over the market and trade union mem inelastic than those of workers who are not members of a trade union.

Further Learning...

Market Failures (Geographical and Occupational Mobility)
There are failures and barriers that exist within the labour market. These barriers labour market to changes in economic conditions and prevent the free moveme labour). Structural unemployment exists due to the inflexibility of the labour mar two main reasons:

- **Geographical Immobility**
  Geographical immobility is about the inability of workers to take a job in location. A worker may live in one part of the country and have recently contract ended, or they were made redundant. There is a job available in many, many miles from London. In theory the unemployed labour could However, in reality there are barriers and conditions that prevent the wo The worker may have a family or other ties to their current geographical to London. Even if the worker had no ties and was happy to move, they the costs of moving and travel.
- **Occupational Immobility**
  Certain jobs require a certain set of skills and some require them to be a workers may not have the matching skill set for a job and so this preven occupations, or moving across industries. This is particularly noticeable w meaning there are fewer and fewer jobs available for workers with this s

Skills, Training and Education

Human capital is the value or quality of a worker such as their skills, knowledge, e

For example: *University is an investment in human capital. It increases the educati increased wages a degree offers is the return on the investment.*

This can determine the productivity of labour, i.e. if a worker has more experience at doing it. Investing in human capital will increase the quality of a human as a lab quality of a good, the higher the price will be, and this is the same for labour; the the higher their wage will be. Increased human capital collectively across the econ because the more goods each unit of labour can produce the greater the sum am

Global Competition, Recessions and Redundancies

Greater competition has a downward pressure on prices. Labour can be sourced a market and so global competition has been argued to have reduced the wage rat will mean firms will try to cut back production in order to meet the falling demand will employ far fewer factors of production. This includes capital and machines, ra means workers are more likely to be made redundant in recessions. Increased glo at which recessions can spread between countries. Equally, global competition has the wage rate in countries all over. This is because greater competition has a dow that labour [illegible] sourced at a much lower rate on the global market, ther on the price of labour (wages).

Trade Unions and Professional Bodies

Trade unions are groups of workers who are in a similar industry or sector. Trade u
and offer collective bargaining power, which means they have more influence to n
working standards.

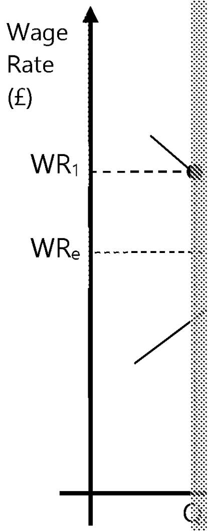
Due to their size and market power, trade unions can behave in a similar manner t
trade unions can be seen as market imperfections that distort the market. This is b
labour market and restrict it from operating freely by, for example, preventing wa
equilibrium level.

For firms, this means they will face higher labour costs which will bump up the cos
this means firms will raise the price of their goods in order to cover the higher cos
firm was not exploiting its market power to suppress wages in the first place. Ther
trade unions: studies suggest that having an organised body of workers can impro
workers and management. They can also protect certain workers being discrimina
worker receives a decent wage.

Minimum Wage Legislation

The Impact of a Minimum Wage on Markets

The national minimum wage is the lowest wage that a firm can offer. The diagram to the right depicts the effects of the national minimum wage; it is similar to an excess supply diagram. This is because the national minimum wage (WR_1) is above the market clearing wage (WR_e).



The higher labour prices mean firms' profits fall and so they are less able to purchase labour (income effect). As labour becomes more expensive, firms will look to switch to using capital (substitution). At the new minimum wage rate, the demand for labour falls to Q_d as firms are less willing to purchase labour at this price. On the flip side, more people would be willing to supply their labour as the benefits of working (and wage) increases.

Because Q_d is higher than Q_s, there is an excess of labour, i.e. the amount of labour available for work is greater than the amount of labour firms are offering to employ. The spare labour shows the unemployment rate. This means the national minimum wage can create unemployment in the market.

Other disadvantages of the national minimum wage can include inflation. This is b
labour costs on to the consumer in the form of higher prices. Equally, as labour pr
to compete on the international market with countries such as China. This means
reduce international competitiveness which can have an effect on the balance of p

There are also benefits of a national minimum wage, however. For one, it raises th
earning less than the minimum wage. This can also reduce income inequality as th
least are brought up.

The effects of a national minimum wage will be more obvious the higher the mini
market equilibrium. If the minimum wage is set close to the market equilibrium, th
effect on the economy.

Minimum Wage in Developed and Developing Countries

Minimum wage changes and interrupts the free market; we would say it has disto
cost of labour, it increases the cost of production, and this can reduce a country's
that may rely on trade, this can have negative impacts. Developing countries ofte
their low costs and so foreign firms may outsource production to them due to the
national minimum wage can reduce their competitiveness and detract from the in
the minimum wage can have negative effects on an economy in the form of incre
damaging for many reasons; to recap on these reasons, see syllabus topic numbe

However, the social benefits of having a minimum wage can outweigh the advers
why the UK has a minimum wage and other emerging markets, such as China, are

Skill Shortages and International Competitiveness

Structural change is when the economy changes its industrial make-up, i.e. old ind
and new industries open up. Dynamic change is good for an economy because re
inefficient and less-profitable industries; these resources can then be allocated to
profitable industries. However, there is a level of 'friction' involved and, although t
benefits, there are short-term (often social) issues involved with changing.

Workers and other resources cannot always change so seamlessly from one indus
required in old industries become redundant and they lack the new skills for the g
workers who have been 'released' from the old sectors are left without and unable
lack of skills.

This means, as an economy tries to gain a competitive edge by having new, innov
a shortage of labour with the right skills. The shortage of labour means the wage
costs of production. International competitiveness will be lost until enough labour
market and bring the supply up and with it the wage rate down (until they have g
this is the 'infant industry' argument).

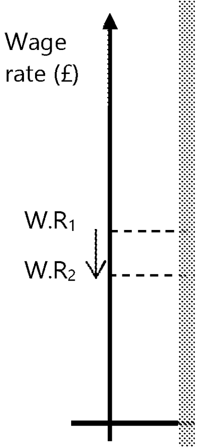
Migration

Immigration
An inward flow of people (people moving to a country).

Emigration
An outward flow of people (people moving away from a country).

Migration
Movement of people between countries.

Net Migration
The end sum of immigration minus emigration (positive net migration = more people have entered a country than left; negative net migration = more people have left a country than entered)



Migration occurs for a variety of reasons and its effects differ depending on these
find work or for a specific job, such as a foreign company headhunting a worker, o
needs an existing employee to help set up a new firm in a foreign market. Some m
oppressive regimes in their home countries. Others may migrate for greater oppo
attending a foreign university.

Human Capital
The value or quality of a work
experience or education level.
increase the quality of a huma

For example: *University is a*
increases the education and sk
wages a degree offers is the ret

Those who immigrated to find work but do not find it will not affect employment levels, but will increase the number of people unemployed. Those who immigrated for a specific job or those who [illegible] and find work will increase employment but the number of unemployed will not be affected. High levels of immigration can fill any shortages in industries that may exist within an economy.

It can be argued that increased immigration will cause the labour supply curve to
labour to fall. However, this is irrelevant because wages tend to be 'sticky', meanin
instead remain stuck in the higher position; equally, there is a national minimum w

Effect of Migration on the Economy

Increased immigration will increase demand in the economy which will encourage firms to expand production which in return will cause the economy to grow and create more jobs.

Economic growth can also occur from immigration because there is more labour (more resource) available for an economy to expand. Working immigrants will pay government will have higher tax revenues.

Migration will carry hu levels of immigration w and education. Econom [illegible]a, find themselves in perfect mobility of labo countries by enabling e workers emigrate leavi capital.

Learn More!
Read Kevin O'Neil's article from 2003 on Taiwan's 'Brain Drain or Gain'
zzed.co.uk/5869-taiwan-brain-drain

Migration a[illegible]ution to shortages of labour

Some people might argue that migration is useful to plug gaps in labour markets. shortage of skilled construction workers, and there are always shortages of nurses Encouraging migration for these reasons is particularly appealing given that the p migrants tend to be young and healthy, so they are less of a burden on public ser taxes than they receive in benefits.

However, there are potential disadvantages of migration. It can cause overcrowdi such as the UK where there is a shortage of housing. If migrants are not well integ cause social tensions as well.

This question has a political dimension as well: how much control does a country conditions of the UK's membership of the EU is that it accepts free movement of p removes some degree of control over EU migration, although the UK does have a migration. This system does benefit UK citizens who want to move abroad, howev

Inequality and Incentives

Some people may not work because they believe they cannot earn enough to me minimum wage is used as a labour market incentive and is designed to encourage This ensures workers will not earn below the set minimum and, as a result, worker employment they can cover basic needs. By encouraging people to work, a gover people in absolute poverty even though the minimum wage may not be enough t

Questions: Global Labour Markets (3.5)

1. **a)** Explain a major change in the labour markets of developing countries in
b) Explain a major change in the labour markets of developed countries in

2. Using a diagram, show the effect on the supply and/or demand for plumbers
a) Better technology means that plumbing problems are less likely to occu
b) The wage rate of electricians increases significantly.
c) The government funds the training of new plumbers.

3. How did the global recession of 2008 affect wages of workers?

4. **a)** Explain what the basic economic model of the minimum wage predicts.
b) In the UK, there is little evidence to suggest that the minimum wage has
Why might this be the case?

5. **a)** Explain the term 'net migration'.
b) State two costs and two benefits of a country experiencing high net mig

Inequality and Redistributio

Poverty and Inequality

Measures of Poverty

Absolute poverty is often measured by a boundary; if a person earns below the boundary they are in absolute poverty. Although the margin varies over time, due to inflation, most economists these days put the line at $2 a day.

Absolute Poverty
Occurs when a person ha

Relative Poverty
Occurs when a person ha

Relative poverty, however, is not a definite measure. The level at which a person c varies across countries because the average wage in each country is different. In t relative poverty if they earn below 60% of median income.

Median Income

Median income is the 'middle income'; this differs from the mean and gives of the average income earned, especially when dealing with data sets that ha an example...

In a neighbourhood of seven people, the lowest earner earns £10,000 and th Below lists the wages of the seven workers in the neighbourhood in order o

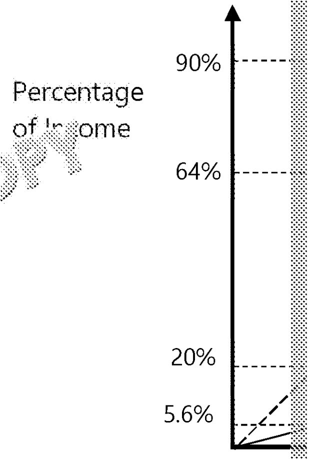
Person:	1	2	3	4	5
Income:	£10,000	£20,000	£25,000	£40,000	£50,000

The median income is £40,000, but the mean income is £68,500 (to the near person 7, and to some degree person 6, earn income that are far above the an income below 60% of the median income, which is £24,000. Person 1 and relative poverty.

Measures of Inequality

Lorenz Curve

The Lorenz curve is used to show the inequality levels in a country. It plots the accumulative income against the accumulative population. What this means is that each percentage along the axis has been added on to the one before. So you start at 1% of the population, and you plot how much income they have as a percentage of the whole income earned in the economy. Then you plot the next 1% along, this adds to make 2% and includes the first 1% and the second 1%. So when you plot the income that this 2% earns, you would look at both the income the first 1% earned, plus the percentage of income the second 1% earns.



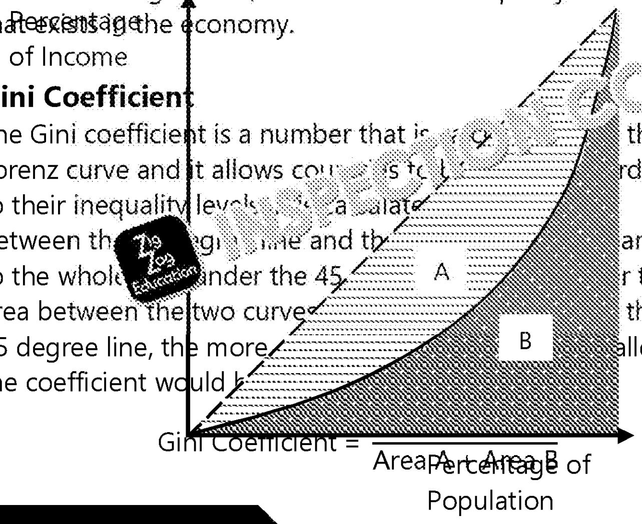
A completely equal economy would have 10% of the population earning 10% of the income, because you are only looking at 10% of th income will be earned equally by the other 90% of the population; each extra perc an extra 1% of the total amount of income. The 45 degree (dashed) line drawn on perfectly equal progression.

Extra Activity!
Watch this video on the income inequality in America, both the ideal perception and the shocking reality:
https://www.youtube.com/watch?v=QPKKQnijnsM

The solid curve shows
each percentage of the
the diagram, 20% of th
20% of the income; ho
5.6% of the income. Th
inequality because the
have. 90% of the popu
income in the economy; however, 90% of the population (a large majority) only e
over half for what is nine-tenths of the economy. This means the top 10% earn 36
third of the income earned by the whole economy which goes to only 10% of the
is to the 45 degree line, the less income inequality that exists in the economy.

Gini Coefficient

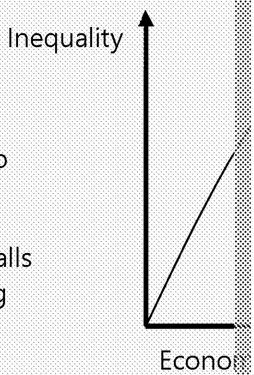
The Gini coefficient is a number that i[illegible] the Lorenz curve and it allows cou[illegible]s to [illegible]rding to their inequality lev[illegible] a[illegible]ulate[illegible] between th[illegible] line and th[illegible]ared to the whol[illegible] under the 45[illegible]r the area between the two curve[illegible] the 45 degree line, the more[illegible]aller the coefficient would [illegible]



$$\text{Gini Coefficient} = \frac{[illegible]}{\text{Area A} + \text{Area B}}$$

Further Learning…

Kuznets Curve
Kuznets hypothesised that initially as an economy grew, inequality would increase, but then after a point, economic growth would result in increased development and reduce inequality. This relationship can be shown on the diagram to the right (Kuznets curve).



Initially, as an economy grows and GDP increases, poverty falls as everybody is at the same low level and so income flowing into the economy is distributed evenly across everybody. Industrialisation starts.

However, those who have the knowledge, ability, skills and/or the chance to be
words those who are at the forefront of industrialisation – will have greater inco
opportunity or ability. The income coming into the econ[illegible] will be unevenly sk
business women/men and firm owners. Inequalit[illegible] in to rise as the econo
but in the pockets of the rich more tha[illegible] of the poor. From a busine
advantageous to give the major[illegible]rofits to shareholders and pay as littl
production (workers). It [illegible], unlikely the wages provided will be any mo

Once the [illegible]y has grown big enough, the governme[illegible] have gained enough funds and resources from taxes and will be able to introduce a benefit system to support the lower earners. It is now possible to implement costly development policies to provide equal opportunities. From this point forwards the economy is on the downward sloping part of the curve and now with economic growth comes economic development, and inequality begins to fall.

Learn More!
Some famous economis
include Thomas Picketty
Research them and thei

Visit **http://www.adamsn**
on the 'research', 'news'
date articles.

Reducing Poverty

Economic Growth
Is the size of a country in terms of the monetary value of its economy

Economic Development
Is the quality of a country in terms of how established and advanced its society and wel

How do they differ...?
Economic growth looks at the changing output of goods and services (changing G
the increase in not only economic terms (incomes, output, investments), but also i
of life, standard of living, inequality).

There is often a relationship between [illegible], although the exact relationship is deba
true, it is believed that increasing economic grow will result in increasing economi
economy that is growing has more income flowing around and this income can be
of society, such as funding job creation or providing more goods and services. It c
is more money going into the government which can then be redirected towards
for example.

Can Growth Reduce Poverty?

Most economists agree that economic growth is a necessary but not a sufficient c
This means that economic growth is always an essential part of poverty reduction
itself doesn't guarantee that poverty will fall. To guarantee poverty reduction, eco
inclusive (i.e. the benefits of economic growth must flow to a wide range of peop
the top).

As mentioned in Section 3.5, China is an excellent example of how economic grow
China abandoned communism and introduced radical market reforms. The follow
growth lifted 680m people out of poverty. In 1980, 84% of the population was in p
around 10%.

Learn More!
Read the following artic
poverty reduction over t
zzed.co.uk/5869-end-po

However, economic growth is not the only solution to poverty: economic development is important too. Poverty is only measured by someone's income, so it does not capture factors such as access to clean water, infrastructure, or the availability of services such as education, healthcare or banking. A more rounded picture of someone's situation has to be captured before we can say that someone's quality of life has improved.

Even though a lot of progress has been made on poverty reduction over the last f
way to go. The remaining [illegible] mainly seem to be ineffective or corrupt govern
countries that held back economic reforms.

Can Aid Reduce Poverty?

Aid is a complex topic with controversial opinions. There are two parties on the to pessimist' – who believe different things on the effectiveness of aid.

The Harrod–Domar model explains that it is low domestic saving rates that mean levels of poverty. This is because spending and investing boost an economy but savings rate mean firms and individuals have little money to spend and invest. Thi little tax revenue and lack the funds to invest in poverty-reducing policies. From th savings rates and be used to invest in policies that support those on low incomes social mobility by providing individuals with access to education, for example.

However, some have argued that aid provides a reward for efficient policies. Thi able to grow and develop will be provided with aid. Some believe aid may have s it has a negative impact as it distorts the economy. Instead it has been suggested trade and promoting the free market should be used to boost development.

It is believed that aid is useful at a micro level but not a macro one. This could be be are more visible as the problems are simpler and narrowed. This is more effective one policy. It has been found that aid is directly reliant on the quality of economic should *adopt good macroeconomic policies to increase return from* aid. Aid is m that have open trade and tight fiscal/monetary policies.

However, there is no 'hard and fast' rule as to what an effective economy is, and e Governments of developing nations may waste aid on inefficient policies and this from continuing with the aid, which is unfortunate because countries with bad po who most need aid, but they are instead being ignored.

If the ability to make aid more efficient is known, but its effectiveness is still in que to why countries give aid should be questioned. It may be unjustifiable if aid is use countries and not the recipients. Motives are questionable when imperfect knowle manipulation power means aid could be used for the interest of the donor countr Lerner plan was intended to promote Europe as a trading partner to improve the donated to Sri Lanka after the tsunami to help with the clean-up. But this meant t accustomed to their equipment and it locked them into trade.

Equally, just as aid can be used to boost the donor's economy, it can also be used ideologies. It is believed the donor country will economically influence the recipie will seek help from whoever is providing it, is in the donor country's best interests 1960s, Kennedy provided aid to Third World nations under the 'peace corps' polic used to encourage capitalism and prevent the spread of communism. Parallels ha the modern motivations behind America's aid and its 'war on terror'.

NGOs could be a better form of aid distribution as they have no political agendas multiple principles and goals. They will encounter conflicting views from donors a objectives as they attempt to appeal to everyone. However, some NGOs can focus within a country that may seemingly produce no results due to lack of exact meas significant impact. For example, schools were provided in Africa but they were an many pupils, a 'micro'-problem. To solve this, an NGO dredged Amsterdam's river with a few repairs were able to provide them to the African children. This significa boosted the skills and education within the economy and, most importantly, with market for bicycles did not exist in Africa.

Poverty Reduction Policies

Policies that are designed to reduce the number of people in poverty (relative or a reduction policies'. The UN has over 4,000 different projects designed to help peo governments to reduce the level of inequality within their economy.

Examples of poverty reduction policies include:
- Labour laws to protect workers
- Social safety nets and a progressive tax system
- Microfinance schemes (e.g. lending to poorer people to help them set up
- Improve infrastructure (e.g. roads, providing public transport)
- Improve provision of financial services (e.g. banks – many people in devel mobile phones to transfer money)
- Adopting sensible macroeconomic policies
- Promoting economic growth (could be achieved in various ways, e.g. oper
- Improving education and healthcare provision
- Subsidising agriculture or encouraging people to move to other types of countries the majority of the population works in agriculture)

The Impact of Inequality on Economic Agent

Impact on Individuals…

For shareholders and business owners, it is beneficial to keep costs as low as poss
Wages are a cost of production and, therefore, it is advantageous to keep wages a
however, the labour is their product and it is advantageous for them to obtain the
gain a higher price (wage) workers can improve their skills and ability (their produ
things such as education, training and work experience. Inequality and poverty, ho
progression and prevent social mobility. For example, doing A Levels and going to
of education a worker has and, therefore, they are more able to obtain a higher pa
students will still need money in order to cover their living costs. Diverting time to
given towards earning an income and so students need to rely on wealth that they
also earn an income while studying, but human resources (time) are limited and
who are both trying to work and study, negatively affecting their grades, well-bein
little wealth to start with may be unable to study and acquire the qualifications th
high-paying jobs, thus maintaining them in a similar social-financial situation to tha
(social immobility).

Social problems that were *originally associated with poverty have* instead been fo
rather than poverty. Prospect Theory states that choices and satisfaction are all re
because we as humans gather our information from what we perceive from our su
'points' from which to compare. Therefore, the ability to afford and cover our nee
everybody has, the basic needs are 'socially constructed'. If a person feels they are
society, then they will feel deprived, discontent and 'left behind'. Social problems,
and run-down areas, can occur not just because of a lack of funds, but due to the
out from society.

Impact on Firms…

Productivity of labour is about the number of products each individual worker can
productive workers because it reduces average costs. It is believe that inequality i
the productivity of the workforce.

Productivity is affected by various aspects, two of which are the morale of the wor
capital (skills, qualifications and experience). The impacts of inequality on individu
reduce the productivity and efficiency of workers who experience poverty and ine
morale. Workers who feel left out from society may have low morale and thus be

Equally, workers who experience poverty can lack the opportunity to increase thei
means workers who are on the lower end of the income inequality level are likely
therefore, will be less productive.

Impact on the Economy

Too much inequality negatively affects the economy because it can slow growth. H
surplus income, whereas low income earners will have very little spare after they h
Any surplus income from this can be spent on more goods, invested in business p
that the surplus income from higher income earners will be reinvested in boosting
expansion or starting up new firms. However, most agree that too much inequality
because most of the surplus will be saved, whereas, if this was more evenly distrib
of that income would be spent rather than saved. Spending the money will have b

Redistribution of Income and Wealth

Income is the money that a person receives in exchange for something, i.e. wages from property. It moves from one agent to another, it is seen as a flow of money.

Wealth is the money that a person holds. It may have built up from wages or investme anywhere. It is seen as a stock as it is money that is kept stored. Wealth can be savings houses (assets).

Wealth can create income, the money and items stored can generate a flow of mo of is a house. The house is wealth, it is a stock/store of money, but if you let it out an income back in the form of rent.

Incentives and the Poverty Trap

Without incentives, the goods we desire would not have been invented and would skills and capabilities to make the goods we want may require incentives to encou Incentives are used to influence people's behaviour and persuade people to act in both positively and negatively. For example, encouraging labour market participat by providing rewards to people who work (wages), but also with disincentives to d working (being unable to afford the goods they want or need)..

The poverty trap, also known as the unemployment trap (or 'welfare trap' in the U taxation and means-tested social programmes keep the poor in poverty. The poor support when they meet the criteria of means testing – that is, people must be de government help. In order to stay on the social programme, a person must contin makes saving difficult (impossible even). Once a person accrues enough finances t poverty (whether through savings or regular employment), they are hit with increa support. In some cases, such as with those in low-income employment, workers ar actually have a better quality of life by remaining unemployed. These factors drag thereby continuing the cycle.

The government is working to combat poverty through initiatives such as its Work This initiative pays credits to low-wage earners, who are 25 years old or over and Low-wage earners with children are eligible to claim from the age of 16 as long as hours per week. While this helps some families, there are still many issues, such as meet the financial requirements of the initiative. Due to this, people are still forced employment, which makes it difficult to save money and break the cycle.

Taxes and the Provision of Services

You will not need to know the intricate workings of the tax system, but if you wish explains some more on the types of taxes and their effectiveness.

The Tax System and Types of Taxes

Progressive Taxes are constant-level taxes that do not change by income level o known as 'flat taxes' because taxpayers will pay, for example, 10% of their income pay £100) or they earn £100,000 (and pay £10,000).

Proportional Taxes are taxes that vary depending on the level of income somebo the incident of the tax changes with differing income levels. So somebody earning tax (£100), but somebody earning £100,000 would pay income tax of 30% (£30,00

Regressive Taxes are taxes that result in charging low-income earners more than example, a government may impose an environmental tax on fuel in order to redu externalities. However, it is generally low-income earners who will purchase old ca afford the new, greener cars. Therefore, low-income earners will pay more in fuel t

Assessing the Types of Taxes

Proportional taxes can be seen as a fair system because the rate is the same and d income levels. There are fewer bureaucratic procedures with progressive taxes wh understand and cheaper to administer. They are much harder to evade or avoid b percentage and so claiming you are earning less doesn't make much of a differen don't discourage or disincentivise working like proportional taxes do because they increasing their incomes. This means people are less likely to feel hard done by or pointless and so people are less likely to feel they want to evade taxes.

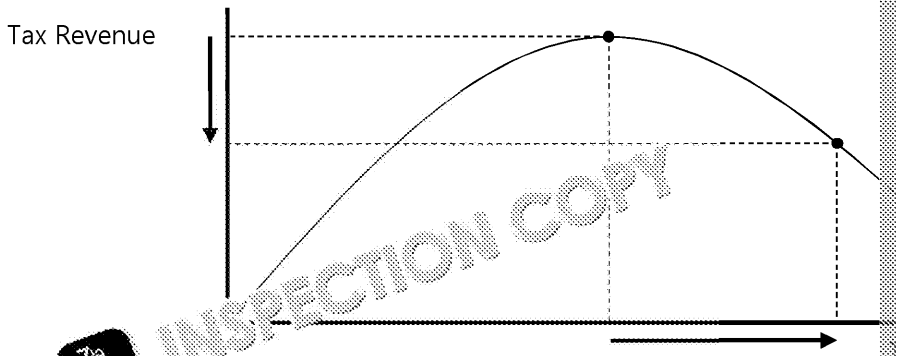
However, proportional taxes are quite regressive in reality and can have a bigger i Progressive taxes address this issue. The idea is that those on lower incomes are le therefore, pay less tax. Those on higher incomes are more able to pay taxes and, t Progressive taxes attempt to redistribute income and correct income inequalities. progressive taxes is that they can discourage people from attempting to increase t people feel disgruntled or fined for 'working harder'.

Regressive taxes are often implemented to correct other market failures but are th are likely to face more than higher-income earners will face. This will worsen unev

The Purpose of Tax

Government spending is funded by the revenue collected from taxes. This means viable due to taxes, any increase in spending must result in increased taxes in the does not always result in increased tax revenue for the government.

The Laffer curve describes a negative parabola relationship between tax revenue a rate will increase the amount of tax revenue the government receives, until a poin revenue will only disincentivise people to work and encourage tax avoidance or ta will decrease from an increase in tax rate beyond this point. This means there is a highest tax revenue.



Taxes not only help to provide and fund services, they can also be used to redistri By taxing the higher ends and providing support to the lower ends, the inequality choosing the correct level of tax is not so straightforward, as has been shown with earlier that discusses taxes. Too little tax means the government does not have th will only run higher and higher debt levels. Too much tax will discourage people f discourage people from working.

Questions: Inequality and Re-distribution (3.6)

1. Explain the difference between absolute and relative poverty.
2. If Romania has a Gini coefficient of 28 and the USA has a Gini coefficient of income equality?
3. Explain some of the pros and cons of using external aid to reduce poverty i
4. Explain the difference between wealth inequality and income inequality.
5. Explain what impact inequality might have on the economy as a whole.
6. Explain what factors the government might consider before deciding on inc

Answers

Globalisation (3.1a)

1. Advantages

   Any from – increased consumer footprint – more sales / potential for new pro
   franchisees' own ideas / future development in linked countries, e.g. once sel
   Norway / social openness and integration / speed of access to information a
   to Internet / global unity on issues such as environment / more jobs for thos

   Disadvantages

   Loss of jobs in local economies as local competitors lose out / sweatshop wa
   jobs in host nation as work outsourced to other countries / threat from impo
   trade is two-way / dilution of cultural diversity due to homogenised products
   identity / unacceptable working practices

2. Levels of adaptation
   - Minimal – [illegible] iPhone is the same across the world – with differen
     d[illegible] country power systems
   - Re[illegible]ng/language some adaptation to take into account local prefer
     essentially the same – Coca-Cola is locally bottled and distributed but th
   - More extensive devolution of local control, using local suppliers, employ
     flexibility with the product being sold, e.g. McDonald's allows local franc
     products BUT McDonald's logo, supply chain, sales technique and meth

Globalisation (3.1b)

1. Globalisation has given countries such as China access to a huge global mark
   costs of production (such as wages) are fairly low in China, they can produce
   them all over the world. This generates higher incomes for the people in the
   lead to higher living standards. You could also add that developing countries
   which they can import from abroad, which increases the quantity of goods th

2. The two main answers are: inequality (since not everyone benefits, particularl
   developed countries), environmental degradation (the rise of manufacturing
   environmental cost). Other answers are possible if well justified.

3. Sandy's real income would be lower than £30,000, since inflation erodes the
   inflation rate of 4% means that £30,000 buys slightly less than before, so in t
   goods Sandy can buy (in real terms) her income is lower than in nominal ter

   Here's another example to illustrate this: suppose that an economy experien
   that a loaf of bread cost $1,000. If the economy produces the same amount
   GDP it will look like the economy is super-rich, all that bread would be worth
   rate is so high, the real value of this GDP would be much lower. It's not that
   produced; it's just that prices are inflated.

   (Note: in the exam you are not expected to use calculations to convert betwe
   you should understand what they mean and why they are important.)

4. a) M[illegible]

   b) False

   c) 810 kilos (600 multiplied by 1.35)

   d) Between May and June. Strawberry production increased by 19.8% (115
   bigger than any of the others: the only other one that comes close is Ju
   increased by 17.4% (135 minus 115, divided by 115).

   (Note: if you struggled with these percentages, make sure you understa
   important skill in economics!)

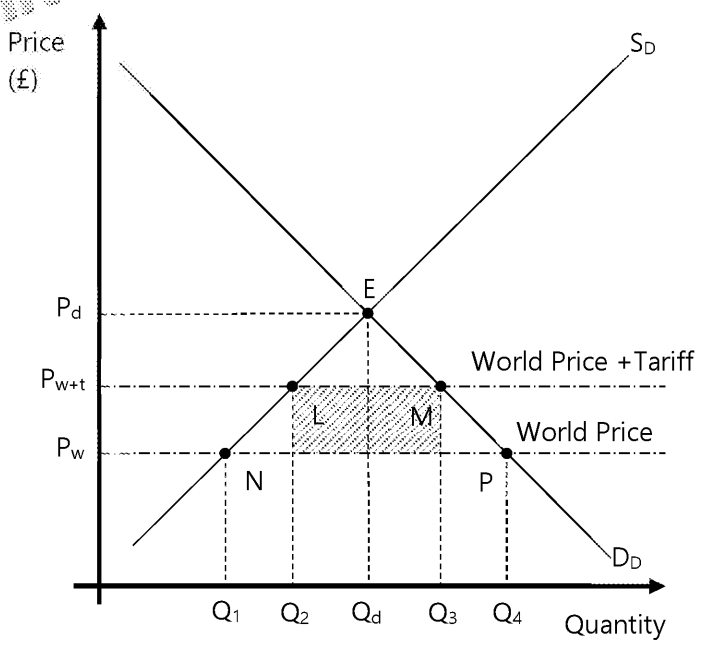
5. Possible answers include: the work of the WTO, the introduction of previousl global market (e.g. China, ex-Soviet economies), the growth of trading blocs

6. a) A country might specialise in producing a good if it has some advantage raw materials, access to good technology, a trained workforce). This ena good on the world market (either because it is of a high quality or becau generating higher returns.

   b) If a country specialises in only one good, then if the market for that goo in real trouble. Essentially, specialising in one type of good is a risky stra

7. Trade creation is when the introduction of a new trading bloc enables trade b happen previously. In contrast, trade diversion is when trade that did happen introduction of the bloc (since it might become more effective to trade with n outside the bloc).

8. Your diagram should look like the one below. Domestic supply of the good h the supply of the good from the world market has fallen from Q_4 to Q_3.



9. Imposing protectionist measures can be counterproductive because they enc retaliate with protectionism of their own. So even if one country gets paid mo paying higher prices for imports, cancelling out any original benefit and pote

10. The WTO is responsible for: promoting competition in global markets and su accessing the world market, taking into account the wider social consequenc

11. The exchange rate fell because investors feared greater uncertainty about the demand for pounds fell, reducing the exchange rate with the US dollar.

12. a) If the exchange rate depreciates, that means that exports appear cheape expensive. If people keep buying imports at a higher price then this 'imp in[illegible]ate overall. As such, a fall in the exchange rate is associated wi people's demand for domestic goods (which are cheap) increases, then demand and hence inflation.

    b) The effect of a depreciation in the current account depends on the price and exports. Suppose the PED for exports is high. Then a fall in the price will lead to a large increase in demand for them, improving the current a will occur if the PED for imports is low: then an increase in their price (du large fall in demand for imports. More exports and fewer imports means will improve (resulting in a trade surplus or a smaller trade deficit).

On the other hand, if demand for exports only increases slightly after th then the total value of exports might actually fall. Similarly, if demand fo (price inelastic) then more will be spent on imports in total. In this case, will worsen.

Economic Factors in Business Expansion (3.2)

1. Any two examples contrasting an advantage/disadvantage
   - e.g. Specialisation – the UK is world-renowned for its financial services a profitability if it focused on that as a main export. However, this does no among UK workers and the necessary dependence on importing other g services do not feed people. It is not a totally self-sufficient country so m comparative advantage would not work for the UK as it does not have s perfect competition model with other countries.
   - UK textile business has suffered from international trade – it is cheaper t Korea, etc. which has destroyed a traditional clothing manufacturing base i England. UK consumers have, however, have seen a reduction in the pric
   - Labour costs in the UK are governed by minimum wage – a social plus p wages abroad and a loss of jobs in the UK as companies seek to reduce
2. Comparative growth between UK, Europe and USA that they are on a similar other countries on the graph. Europe is still a viable market. Venezuela and R be a source of labour or natural resources. China is still at a higher GDP than down as it becomes a more sophisticated market but it is still a worthwhile ta

Conditions that Prompt Trade (3.2.1)

1. Answer should include growth potential of the market – GDP and sheer size o World Cup and attention and development of infrastructure as a result. The f companies are there means regarded as stable. Oil and gas reserves mean th with natural resources. Economists believe they will continue to grow. New m eager for more expensive products.
2. a) They are a thoroughly established business so they have established ma efficiency. Tried and tested quality product in domestic market – niche p successfully in domestic market before exporting. They use a local mana have been very patient developing good contacts and procedures that t

   b) Decided to export as niche product so expansion domestically would ha market demand and were able to develop India because of reputation b Specialised product so higher returns on investment made the expansio
3.
   - Examples can be technological products superseded in UK by newer mo / tablets; new markets may not have the advanced technological capabi
   - Designer items that are coveted overseas even if last year's 'model' as th prohibitive to lower-income countries.
   - Larger engine cars in countries which have lower fuel prices – in the UK petrol prices are less of a concern in other countries. Plus, older cars out in Western countries but are more practical in rugged terrains
   - 'Goods' such as entertainment programmes that have been seen in the U second lifespan in other countries.

Assessing the Potential Different Economies (3.

1 a) Three reasons to market first, with production later:
   1. Test demand
   2. Test price points – designer pricing varies between countries
   3. Establish distribution channels and delivery options

   Three reasons to go into production:
   1. Can reduce costs for domestic product
   2. Cheaper than producing in Nottingham and have reached capacity in
   3. Need a retail outlet to appeal to potential consumer so will have to s
      can minimise delivery and shipping costs by being more local to mar

b) Any five from the below, or sensible alternatives
   1. Should the company test a high-street version domestically first befo
   2. Can they sell their designer version online abroad first and decide wh
      or USA?
   3. What are labour costs and conditions in different countries?
   4. Are there any existing trade agreements they should consider?
   5. Which country has the most appropriately skilled workforce?
   6. How will they monitor quality?
   7. What legal issues are there surrounding production in each country?
   8. Which market do they want to focus on and which country has best l
   9. What grants are available to trade with these countries? Are there an

c) At least five supported reasons why a specific country has the right bala
   the shoe company to consider it viable. (This could be a group exercise a
   arguing the case for a specific country.)

Responding to Global Demand (3.3.1)

1. Sweet manufacturer adaptations:
   1. China
      - Consider colour of wrapper – maybe RED for good luck sweets
      - Level of sweetness offered
      - Shape of wrapper to accommodate Chinese writing being more ver
      - Distribution channels need to be internally run – China is a very larg
        population
   2. India
      - NO animal fats in ingredients – many Indians are vegetarian so swe
      - Size of bags – a lot of India outlets very small – so local distribution
      - Bollywood – celebrity endorsement possibility
      - Price – a lot of very low-income families – sweets to be priced withi
   3. USA
      - Higher sugar content unless targeting health-conscious market
      - Cocoa solids ratio different in USA – they have different taste perce
      - Larger sizes – multipacks for supermarket shopping – many Americ
      - Can utilise British nostalgia/tradition as a marketing tool

2. - Coca-Cola benefits from not having to have large physical presence in th
     shipping costs are limited to shipping the concentrate. Local distribution
     their bottling partners. Local partner can adapt sweetness, etc. to suit lo
   - Local partner has a proven product to work with and distribute.
   - It creates labour in the foreign country – BUT wages are still lower than i
     host country.
   - If labour costs rise – Coca-Cola could simply move its outsourcing to a c
     investment in infrastructure.

Demand-side Factors in Global Markets (3.3.2)

1. - Food content – e.g. vegetarian or not
   - Local herbal remedies that already exist – e.g. China has a strong traditio
   - Health profile of the target market – e.g. higher levels of diabetes than g friendly
   - Restriction on images in target market – traditionally health foods are ac attractive men and women in exercise clothing – is this acceptable?
   - FDA/health food regulations in target country
   - Existing distribution channels – pharmacy/supermarket – where do most
   - Health structure and system of target market – free healthcare / paid he health / government support for health

2. Harry Potter – films / books / merchandise / Warner Bros. studio tours…
   - Very British – although new film has extended into USA market by being s American actors.
   - Can be subtitled and translated for global distribution but concept's nich
   - Spin-offs in response to fans' demands – they drive the next step and ar Generational – not just children – but spanned a period of time so curre with Harry Potter.
   - Part of the successful British film industry – adds to tourism.
   - Many language barriers but not altered to accommodate as this is part o
   - Some cultures frown upon magic – others embrace it – but school them is very specific in its structure, based upon English education system.

   ASOS
   - Affordable designer niche. Instant gratification – targets those who want the time a groundbreaking delivery model – now imitated by many othe
   - Capitalises on watchers of TV celebrities and fashion followers. Specific a outside its age range of 18–25. Uses high level of Internet interaction, so broadband and who are tech savvy.

   Metapack
   - A follower of other niches – online e-commerce shopping but focuses o delivery system. Uses innovative technology so only for companies whos or who want to be. Bespoke design so tailored solution. Online so no de intellectual capability of design team.

Impact of Globalisation on Local and National E

1. MNCs are important for national economies because they have the ability to macroeconomic variables. MNCs natural need to invest when entering foreig have positive spillover effects on the national economy.
   - MNCs can increase employment in the national economy.
   - MNCs can produce productivity gains either directly through technology indirectly through learning.
   - MNCs can increase national income.
   - MNCs can [illegible] affect the balance of payments through exportatior
   - *Any effect of MNC presence on macroeconomic outcomes is valid. E logically sound.*

2. Horizontal technology transfer occurs when technological know-how is trans e.g. if Apple begins production in China, its technology and expertise might b computer manufacturers and software developers. *Vertical* technology transf between different industries. Vertical technology transfers can be either *forw* transfer might occur when producers in the host nation purchase inputs of th technology becomes imbedded in and improves the final good; a *backward* t transfer knowledge backwards to their supplier – e.g. Amazon's logistical exp backward to its original suppliers if they help their suppliers modernise their

3. It might be misleading to compare wages between countries because it coul
workers – especially in LEDCs – are being exploited by MNCs through 'wage
should reflect the *productivity* of labour. Differences in capital inputs – e.g. te
education could account for the disparities in productivity, and so wages, bet
countries. While wages are considerably lower in LEDCs, it is likely just a refle
less productive than Western workers.

4. MNCs can employ many initiatives to show that they are operating fairly in L
publish lists of the contractors and factories that they use in LEDCs so consu
following ethical practices. MNCs can also ensure standardised levels of safet
by refusing to work with substandard contractors. MNCs can cooperate with
they are helping to mitigate their environmental footprint. (*There are many e
show they are operating responsibly – linking to the idea of Corporate Social R*

5. Ethically the concern is that Monsanto is using its market power to manipula
gain. Indian farmers need not be forced into buying Monsanto crops and bec
actions have made this the norm (note: Monsanto now controls 95% of the
MNCs would be ha[illegible] complicit in the suicide of innocent farmers. Ho
interes[illegible] -maximisation – e.g. through creating sterile plants, in
mainta[illegible] human life. Monsanto could mitigate the impact of its behaviour
poorer farmers, or offering mental health help, etc.

6. Political control of an MNC could include either *direct* or *indirect* control. Tha
controlled, state-owned, or just influenced and coerced by political action. *D*
potentially beneficial because the government is the ultimate decision-make
working towards achieving its objectives. However, direct control can easily b
might be inefficient, and doesn't necessarily ensure the government achieves
might include measures to influence MNC behaviour such as imposing a tari
is that it allows officials to challenge business and address concerning issues
controlling stake. Yet, there is only so much a government can do to influenc
and it could also cause adverse or unforeseen consequences.

7. Greenpeace is an environmentalist pressure group. It can exert pressure on M
most likely in relation to emissions, waste disposal, or other environmental c
means to change business behaviour, and some are more disruptive than oth
oil company from entering an oil-fracking site by forming a human wall. Ulti
always to influence the business's behaviour.

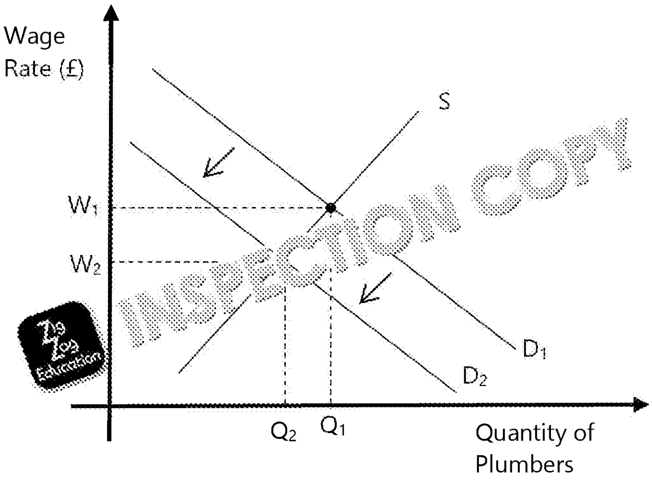
8. Pressure groups can call out or 'name and shame' – e.g. shaming Amazon an
could also take direct action – e.g. through protest or running campaigns. Fi
their objectives – e.g. by writing letters to MPs and governments.

Global Labour Markets (3.5)

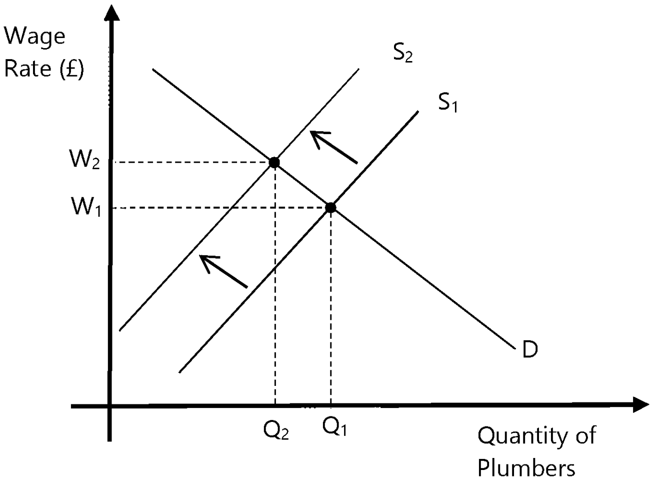
1. a) The main change here is that there has been a large increase in the supp countries.

   b) The main change here is that there is growing inequality between skilled demand) and low-skilled workers (who are in competition with low-cost

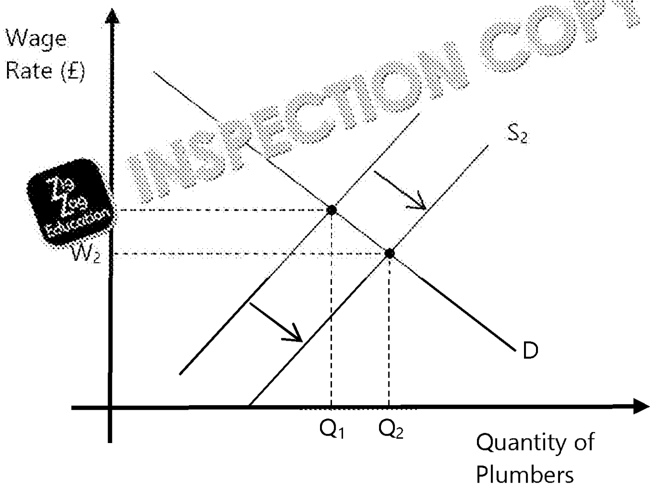
2. a) This would cause a shift to the left in the demand for plumbers:



   b) This would cause a shift to the left in the supply of plumbers:



   c) This would cause a shift to the right in the supply of plumbers:



3. In general, it led to a fall in the wages of workers. Demand for goods and ser economies, so demand for labour was also low (since labour is a derived dem were frozen) and unemployment rose.

4. a) The basic model predicts that the minimum wage will push the wage rat an excess supply and shortage of demand for labour, which results in un

   b) There are several possible reasons, all of which suggest that the basic m
   - Perhaps wages were below equilibrium to begin with (this could be well informed about alternative job opportunities, or if their skills ca to another)
   - Perhaps increases in the minimum wage are quite small, so the effe noticeable
   - Perhaps firms agree to absorb the higher wage costs and accept sli the case particularly if firms care about the welfare of their workers ignores). It could also be that before the minimum wage, firms with workers below the appropriate wage rate.

   Other answers are possible, but it's important to know that the predictio to [illegible] the economic reality.

5. a) Net migration is the difference between immigration and emigration in if immigration were 100,000 in a year and emigration were 80,000, then

   b) Possible benefits include:
   - Economic growth
   - Filling skills shortages
   - Reduced burden on public services
   - Cultural enrichment

   Possible costs include:
   - Social problems
   - Overcrowding

Inequality and Redistribution (3.6)

1. Absolute poverty is when someone's income is below a fixed level (e.g. $1 a
   someone is poor compared to other people in the same economy (e.g. below
2. Romania (lower Gini coefficients indicate better income equality)
3. On the one hand, aid policies can be beneficial for developing economies be
   abroad. However, there are numerous possible drawbacks of foreign aid. Son
   that certain conditions have to be fulfilled (which might benefit the donor ec
   Also, if aid is not well targeted it could be siphoned off by a corrupt governm
   poverty. In this way, aid might be better targeted at a micro level, e.g. to hel

   Most economists agree that aid alone is insufficient to reduce poverty; it is m
   economic reforms in the recipient country.
4. Wealth inequality is when the difference in people's wealth (i.e. the total sto
   very great. Income inequality is when people's income over a particula
   differs greatly from person to person.
5. Since poorer people tend to spend a higher proportion of their incomes than
   could mean that economic activity in a country is lower than it would be othe
   distributed more evenly, more would be spent in total. There may also be de
   feel that they are getting an unfair deal, who are then less productive, reduci
6. There are several important considerations for income tax, including:
   - How progressive should the system be, i.e. how much more should high
     lower-income earners? What rate should people who earn over £100,00
     who only earn £20,000?
   - When should earners start paying tax; is it fair to make people who earn
   - How will this affect people's incentives to work? (Very high tax rates mig
     they discourage people from working.)
   - How much tax revenue are we going to earn? (Low tax rates might enco
     revenues might be too low. The government needs to find the right bala
   - Is the tax system simple? (A highly complex tax system might confuse pe
     collect taxes efficiently.)
   - The government may also consider the amount of revenue earned from
     income tax rates. (Income tax is the single largest source of tax revenue
     generates less than half of the total tax take.)